

Challenge

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Articles

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*NOTE: Since this issue is devoted entirely to the mobilized economy, the seventh installment of "The Permanent Frontier" will not appear. The series will be continued again in the May, 1958 issue.

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letters TO THE EDITOR

Challenge invites your comments. Address letters to
Challenge, 475 Fifth Avenue, New York 17, N. Y.

Departmental fan mail

•You ask in your January issue that your readers "drop you a line," so hereunder, a few brief comments.

A *Personal Note* and *Challenge Notes* are definitely worthwhile. Many times I disagree with the opinions set forth, but one's understanding can be broadened by giving thought to what others think.

I am glad to see that you have become less dependent on the professors and are giving more space to what businessmen, journalists and labor-relations specialists have to say.

The *Personality-of-the-Month* is an interesting feature. I suggest that you present one on the new Secretary of Defense, or have an interview with him. How about interviewing Sen. Harry Byrd (D.-Va.) about government expenditures and how the increased cost of defense can be met by reducing subsidies to farmers, veterans and other groups? Interviews with the SEC, the FRB and the Eximbank would be interesting.

The tips contained in *Everyday Economics* are excellent; please keep on with them.

Economics in Action is always interesting and sometimes stimulating. The January number implies that we

are becoming decadent. With that I am often inclined to agree, although I believe that if we had a Teddy Roosevelt in the White House the people would respond in a big way.

Your *Man and the Economy* series was tops and so is your current *History of the American Economy*.

I would like to see reviews of books of more current interest. It is not necessary to stick to dry and recondite treatises on economics.

The *Dept. of Better Mousetraps* would be much more useful if it told where the various articles could be got and what they cost.

All in all, I think CHALLENGE is the best bargain I know of in the USA today.

OWEN S. PAYNE

Ridgefield, Conn.

Depression and unemployment

•After 1929, when like so many others I was unemployed, I began to think about depression and unemployment. I read what the economists had to say, but soon noticed they didn't know the causes. I had in 1932 something like an inspiration which enabled me to see that faults in our social, economic and financial organization are the causes of all these troubles.

Material progress achieved under an individualistic [capitalistic] sys-

tem has led to the belief that nothing can be wrong in this system, while Communists believe that everything is wrong and want to spread their system. The imminent danger is a war between East and West, and it seems the only way to avoid war is to convince both sides that neither system is completely wrong nor completely right. That will not be easy, but should be worth trying.

FREDERICK SCHUMANN

Long Island City, N. Y.

For more conservatism

•Congratulations on your new department, *Personality-of-the-Month*!

However, in December you profiled a New Deal-Keynes economist, Sumner S. Slichter; and in February, John Kenneth Galbraith, an anti-anti-economist, an ADA man.

Why not feature conservative economists like Fred R. Fairchild of Yale University, Major B. Foster of New York University, Walter E. Spahr, also of New York University?

FRANK P. STELLING

Oakland, Calif.

Congressional fear

•The article, "Inflation's Victims" [December, 1957] should include, on page 16, that the "relief to dividend earners" is but a restricted and nominal one, due to Congressional fear of powerful labor unions.

Also that said unions have—estimatedly—35 billion dollars invested in securities, real estate, etc., whose income is tax exempt at the expense of unorganized investors. Co-ops, credit unions and other favored groups likewise escape the income tax.

On January 20, 1958, the AFL-CIO presented a statement to the Finance Ways and Means Committee, urging repeal of the niggardly

relief extended to shareholders and the addition of another 7.8 billion dollars to their present double taxation of dividends.

Long ago, shareholders should have formed a strong union whose voice legislators could hear and understand.

ERNEST C. HASSELFELDT

Chicago, Ill.

Mr. Hatoff takes his hat off

•Please renew my subscription to CHALLENGE for two years. I find the magazine interesting, informative and challenging.

M. E. HATOFF

Forest Hills, Mass.

Behind the times?

•We like your magazine very much and are interested in the improvements you make as you go along.

Your *Dept. of Better Mousetraps* is interesting, but quite a bit behind the times. (Either we get things here in California faster or it takes you a long time to include them in your department.)

Keep up the good work.

ESTHER P. CARDEN

Gardena, Calif.

Causes for alarm?

•Please give us an article on the economics of unemployment. We need this information. Hopefully yours,

GLEN E. ALDRICH

Evart, Mich.

CORRECTION: On page 8 of the January, 1958 issue, *Prime Minister Harold Macmillan of Great Britain was erroneously identified as Chairman of the Macmillan Committee on Industries and Trade Business. The chairman was Lord Macmillan.*

a personal note

from the editor

*"keeping up" does not
mean only with satellites*

IMPLICIT in all the frenzied activity in this country to keep up to, or to stay ahead of, the Russian scientific advance is the basic assumption that the economic wherewithal for this effort can be employed without any threat to the basic tenets of the American way of life. Such faith in our institutions is not, in my opinion, ill-placed, although it is certainly true that in many instances the so-called eternal verities are more apt to be taken for granted than defended on principle. But whatever the source of our self-confident assumptions, there are very few in this country who really believe that from now on we shall have to live with the dust of Russian progress constantly hitting us in the face.

This issue of CHALLENGE is almost wholly devoted to an examination of the economic implications of keeping ahead of the Russians. Now, there are many facets to this business of keeping ahead of anyone. When it comes to the Russians, "keeping ahead," above and beyond everything else, means doing everything we possibly can to discourage potential enemies from any attempt to overwhelm us physically. Thus, we have chosen in this issue of CHALLENGE to discuss economic issues in the context of the new defense posture we have had to adopt ever since the Russians put their rocketry advances on public display.

To be sure, no one in his right mind can feel that the Russian challenge has been adequately met because we have successfully put two satellites into orbit. In the first place, the Russians were the first to go into the satellite enterprise, so they have the honored position of "pioneer." In the second place, our satellites are not in the same weight class as those of the Russians; so we cannot claim parity in rocket power. And in the third place, the Russian threat encompasses more than advances in or on land, sea and air. It is now obvious that focusing all attention on the economics of building and launching satellites had a tendency to get our feet off the ground. The current business recession in this country has brought us back to earth, and in a crude way it has

suggested that we should be at least as much concerned with the economics of employment as with the economics of rocketry. In short, the most difficult part of catching up or staying ahead is still to be reckoned with.

After all is said and done, we must face up to the hard reality that whatever we do to maintain a viable position against Russia, we must do it in a way which most Americans will accept as palatable. We cannot, for example, use enslaved labor to augment our defense effort. We cannot suppress news of our failures and thereby dramatize our successful efforts. We cannot ignore the economic strains upon individuals for the sake of a grand national project. We cannot obliterate the private consumption sector of the economy to achieve goals pronounced by public decree. We cannot regiment our resources with an iron discipline that mercifully stamps out deviation. We must listen and eventually react to a great variety of pressure groups. We must, somewhere and at some time, limit the government's power to tax and spend. We must consider the individual's prerogatives. We cannot ignore the consuming public; nor can we deny people the right to spend some money at their own discretion. In short, whatever we seek to achieve as a nation must be an amalgam of various and differing desires. Public consent is, in the last analysis, achieved in the grand posture of compromise. All of the disabilities and inefficiencies of a democratically inspired republic must be carried in good grace. There is, therefore, some dissipation of the strength potential of this nation. Yet, it cannot be any other way. Unity in diversity is what we have to pit against the Russian discipline of purpose.

What is said in the articles in this issue of CHALLENGE gives some indication of the myriad factors we must consider in our economic life. We have investment needs, both in the defense sector and in the civilian sector, and neither can be ignored completely. Government monetary and fiscal responsibilities are closely watched and debated. Private enterprise and public responsibility create dual regimens and often inspire contradictory goals. Labor has its own institutional responsibilities to pursue, and national interests to consider, as well. The consumer's income must be protected, but his spending habits might perhaps be altered—but voluntarily. The present sees the world in a state of emergency, yet future contingencies and the desire for continued growth cannot be squelched.

How effectively shall each of us, as individuals, contribute our own ingredient to the national recipe for survival?—H.B.



Challenge Notes

*"Unpolitical" agencies; accusations and counteraccusations;
statistical vs. real unemployment; the dye is cast*

NOW THAT the House investigation of administrative agencies has been sidetracked into such important but peripheral questions as influence peddling and business ethics, we suggest that the Senate investigate some basic problems that the House Subcommittee on Legislative Oversight has apparently lost sight of.

•Are such agencies as ICC, FCC, FTC, and CAB really the best way of administering sectors of the economy that Congress has decided, for one reason or another, need regulation? The original idea behind setting up these agencies was that regulation of such things as air rates, television channels and power awards, should be insulated from "politics." But was this either realistic or desirable? Once government begins to regulate, can (or should) its decisions be "unpolitical"?

•If, as the recent investigations have shown, the idea of a completely unpolitical and "expert" agency is Utopian, would it not be wiser to admit this and have

the executive do the work directly—subject, of course, to Congressional scrutiny? When the Defense Department awards a contract, is its decision any more (or less) political than when the FCC awards a TV channel?

•Finally, are not some of the powers at present vested in the administrative agencies—for example, ICC control over rail rates—an anachronism based upon outworn assumptions that no longer correspond to economic reality? What criteria should be used when subjecting an area of economic activity to control?

These are some of the questions that Congress should investigate and that the rest of us should think about.

Who killed prosperity?

THE debate over the current recession is beginning to sound more and more like a criminal investigation. Each side is looking for the party that "killed" prosperity. Business sees the unions as the criminal for asking wages

that business has to pass on to increasingly unwilling consumers. Labor blames the high (?) rate of business profits, overinvestment in capital-plant capacity and inadequate purchasing power. And both labor and business blame the government's recent tight-money policy and high taxes. The Administration, in turn, answers that both business and labor lack "faith" and have failed to shoulder their responsibilities.

No doubt there is something to be said in favor of each of these accusations and counteraccusations. But is this the way to conduct an economic argument? A recession, after all, is not a crime. The economic detective is concerned not with "who done it?" but "how come?" Mud-slinging will not help us find out.

Who are the unemployed?

WHILE there is good reason to believe that the President's prediction of a downturn in unemployment by March will be corroborated by the statisticians, this should not by itself lead us to conclude that a general pickup is in the making.

In assessing the seriousness of a recession, it is often more crucial to know *who* the unemployed are than to know *how many* there are. Sometimes, business is so good that, paradoxically, there is "statistical" unemployment—teenag-

ers, elderly workers and part-time workers are lured into the labor force by employment opportunities that do not always materialize in the form of jobs. That sort of unemployment does not interfere with economic growth.

Unfortunately, this is not the situation today. Census figures indicate that unemployment is centered in durable goods industries, among factory workers, craftsmen and supervisory personnel. Even more important, there has been a sharp increase in unemployment among married men with families. Probably—although this the figures do not reveal—many of them are young men with little seniority who are the chief support of relatively new households and have relatively little savings, but much debt. Laid off, they will have to reduce their buying.

Faith in the basic soundness of our economy should not lead us to shrug off the short-run seriousness of the current recession.

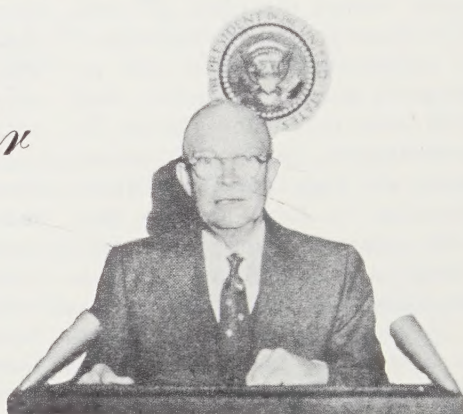
Lunar lunacies

THE legal problems of lunar discovery shed ghastly (ghostly) light on earthly affairs. If some legal experts have their way, whoever gets there first will splash a dye over the moon's surface to establish ownership. One more reason why we are against a Red moon.—M.K.

The President's Economic Report is a mirror wherein we may see reflected the major needs and strains of the age of mobilization

A Tract for the Times

by Edwin G. Nourse



United Press Photo

PRESIDENT EISENHOWER'S Economic Report must be read in the context of our current space hysteria, inflation fears and the widespread distaste for government planning. It should also be read in the perspective of the 12 such state papers that have been submitted as called for under the Employment Act of 1946. This retrospect includes for me some poignant memories of my own participation in preparing such state papers in the past and, later, sympathetic study of the efforts of my successors on the Council of Economic Advisers.

Thus examined, the present Economic Report is, in my judgment, an admirable document in so far as it meets the responsibilities laid upon the President in the Employment Act. I might

elaborate this terse appraisal "admirable" into the phrase "economically realistic and politically astute." The "eager beavers" have tagged it timid, platitudinous or even pusillanimous. The Old Dealers view with alarm its tacit acceptance of the idea that passage of the Employment Act really meant something.

The economic impact of the Sputniks would appear to have striking similarities to that of Korea; and the business dips of 1949 and 1953-54 appear to be in many ways like the present decline. But there are also striking differences between the business and military situations for which Mr. Truman had to adopt a strategy and those confronting Mr. Eisenhower.

The Employment Act of 1946

was passed under fear of postwar recession, but the immediate problem which confronted the country from 1946 through 1948—as successive Economic Reports of the President clearly recognized—was inflation. Mr. Truman strongly resisted the inflationary tax cut of 1948, and, in dealing with the inventory flurry of 1949, he did not advocate a resort to massive fiscal and monetary stimulants.

In 1950, the Korean war brought a drastic change in the elements of the problem. It necessitated a deferral of the basic purpose of shifting the nation's productive resources into peacetime production, without loss of the momentum that World War II had imparted. But the Korean war intensified the still potent forces of inflation. Under the lead of the Joint Economic Committee, established under the Employment Act, the Congress took prompt and vigorous tax action to reduce the war-renewed inflationary force.

Even so, inflation was the major problem when President Eisenhower took office in 1953. We were dancing to a "rock 'n' roll" full employment rhythm, but what it would take to pay the band worried even wiser minds than George Humphrey's. The new Administration undertook to combat the in-

flationary trend by reduction of federal spending, a firm monetary policy, revised debt management and the retention of various excise and corporate income taxes beyond scheduled expiration dates. The President's Economic Report of 1954 pointed with pride to the fact that some nine billion dollars of spending had been pared from the government program without a like amount of productive resources falling idle. They were shifted to private spending and consumer gains.

Thus, at the opening of his 1954 Economic Report, the President was able to say:

"A great opportunity lies before the American people. Our approach to a position of military preparedness now makes it possible to turn the productive potentialities of the economy increasingly to peaceful purposes. To help our people seize this opportunity, the federal government must continue to meet successfully the challenging problems of economic transition from war and inflation to peace and monetary stability. We can [do this] without serious interruption in our economic growth."

Since the Economic Report of 1954, the continuation and even intensification of the cold war has resulted in our holding resources for military use to a greater extent than had been expected. This has limited the civilian adjustment

Edwin G. Nourse, former Chairman of the Council of Economic Advisers, is a highly respected economic consultant in government and business.

problem to the finding of market outlets for only part of our rising industrial and commercial productivity. As the economy staggered a bit under the 1953-54 burden of even this allocation to civilian progress, government policy moved vigorously to check any recession from the "maximum" production and consumption levels to which the country had become so pleasantly accustomed. According to Arthur F. Burns in *Prosperity without Inflation*:

"In its new role of responsibility for the maintenance of the nation's prosperity, the federal government deliberately took speedy and massive actions to build confidence and pave the way for renewed economic growth. . . . It did not leave the fate of the economy to the automatic stabilizers or to good fortune."

Inevitable problems

To me, however, it seems possible that history may pass judgment that government intervention, too speedy and too massive, unperturbed by the possibility of overfull employment, overconfident investment and overextended credit, fostered a "bubble on the boom" during 1955-57, and made more difficult some inevitable problems of private market adjustment—the fitting of price and income structures to our sharply expanded productive potential.

It was, therefore, into a highly equivocal economic situation in the USA that the USSR launched the Sputniks. Had they not entered the picture, our domestic economy would have been faced by a more searching test of the philosophy and implementation of the Employment Act than any we have thus far had to meet. The problem of keeping our expanded industrial capacity from becoming "excess" and our growing labor force from massive technological unemployment would have mounted apace. The Sputniks and related developments give us a reprieve from possible punishment for failing to solve that problem as it had emerged in the late Forties and early Fifties.

Here, we should note the fundamental difference between Sputnik and Korea. The latter, through the early Fifties, piled a war-supply burden on top of an economy already fully occupied in catching up on civilian needs, broadening the production base and raising the level of national consumption. The Sputniks, on the other hand, released a demand for gigantic spending just when a sizable gap between productive capacity and purchasing power was opening up.

Turning then to the 1958 Economic Report, what appraisal of the current situation does it make and what sort of strategy for dealing with it does it propose? And

how does it accord with the fiscal 1959 budget? My comments must be too brief to do justice to the rich scholarship of the Report and too categorical to do justice to my own scholarship.

First, the Report states the problem confronting national economic policy with great clarity and frankness. It says:

"During much of the year (1957) the task of restraining inflationary pressures was paramount, and policies were directed to this end. In the closing months of the year, and currently, the task has been to facilitate readjustments in the economy essential to the resumption of sustainable economic growth, but to do so without reviving inflationary pressures."

A twofold goal

This is a perceptive but unobtrusive reaffirmation of the mandate of the Employment Act of 1946. Government should follow policies that will "facilitate readjustment in the economy." It envisages a twofold goal: (1) such growth trends as are "sustainable" by a free-enterprise economy; and (2) those trends to be sustained by sound business practices, not by inflationary stimulation. There is no suggestion that the federal government should go out and create jobs or administer resources.

Second, the Report gives an estimate of the size of the task of "readjustment" needed to get a "resumption" of sustainable and noninflationary growth. This part of the Report strikes me as more practically sagacious than analytically secure. It is "sagacious" because it would be hard indeed to choose a like number of simple English words that would be more appropriate than the following for the President to utter with the whole world listening:

"As we look ahead in 1958, there are *grounds for expecting* that the *decline* in business activity *need* not be *prolonged* and that *economic growth can be resumed* without *extended* interruption. The policies of government will be directed toward helping to assure this result."

The words I have italicized highlight the skill with which optimism has been blended with realism. The Employment Act calls upon the President to report to the Congress each year on "foreseeable trends" in the national economy. This Report foresees a basic growth trend but a current interruption which "need" not be "prolonged." This leaves wide latitude for the unpredictable actions of the 85th Congress and of the business and consumer public.

But, clearly, the President foresees an "iffy" year which challenges both private management

and public policies. One who peruses the pages of the Report for any spelling out of foreseeable developments or even hypothetical alternatives in wage demands, price administration, investment programs and the spending-saving pattern of households will come back empty-handed.

But a conclusion that the recession will not go much beyond its present moderate dimensions and that an upturn will come before the end of the calendar year may be reasonably inferred from the Report's stated position on fiscal prospects:

"The need to accelerate important portions of our defense program requires that the Congress make certain supplemental appropriations early in the calendar year 1958. . . . Budget estimates reflect the interaction between economic developments and the federal government's receipts. With anticipated resumption of economic growth, receipts in the fiscal year 1959 are expected to be enough higher than in fiscal 1958 to provide a small surplus over the somewhat increased level of projected expenditures."

Third, my comment "less analytically secure" expresses the judgment that this cheerful projection glosses over some quite foreseeable tensions—if not an impasse at important points—in the adjustment of prices and incomes to a level

of full use of our plant and labor force. That it is not out of the minds of the President's economic advisers, however, is evident in the chaste words but pregnant meaning of this brief passage:

"There is no . . . easy solution to the problem of maintaining high employment, vigorous economic growth and reasonably stable prices. But it is clear that the combination of policies and practices followed in the recent past by the various participants in our economic life has given results that in certain important respects are unfavorable. There are critical questions here for the leadership of business and labor, as well as for government. Business concerns must re-examine their policies and practices. Price increases that are unwarranted by costs or that attempt to recapture investment outlays too quickly not only lower the purchasing power of the dollar but may be self-defeating by causing a restriction of markets, lower output, underutilization of capacity, and a narrowing of the return on capital investment. The leadership of labor must recognize that wage increases that go beyond prospective productivity gains are inconsistent with a stable price level."

Reassuring position

Fourth, while thus laying responsibility squarely on the shoulders of private business for

positive contributions to growth and stability, and accepting responsibility for the government to "help" toward those goals, the President takes a reassuring position that stability and growth will be achieved. No President could afford to do anything to undermine the economic confidence that is such an important ingredient of prosperity in a free-enterprise economy. But the sentences quoted above reveal clearly that alert study and flexible policy-making will be going forward as the actualities of the business year unfold.

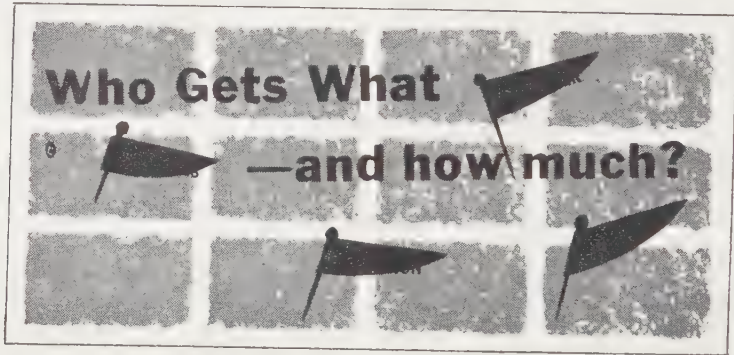
The budget submitted to the Congress a week before the Economic Report was strictly in line with the cheerful outlook of the Report. The President raised his budget ceiling two billion dollars above that of last year—a clear recognition of the demand for stepped-up military preparedness, but not a succumbing to the naive popular assumption that geniuses can be created by making Congressional grants or that we can buy space-age miracles at the five-and-ten (billion) store. It puts the Pentagon on notice to unify itself on the frontier of modern armament know-how instead of digging in at every foxhole where vested interests rear a flag. It puts Congress on notice to trim on pork, junkets and bureaucratic waste.

I feel that 73.8 billion dollars

is a very sensible figure to set up as a provisional target from which to start the inevitable battle democratic in the Congress between the easy spenders and the rigid budget balancers; between the informed (but not unanimous) experts and the emotional (but multioriented) amateurs. It makes a reasonable working paper upon which discussion can focus while the business situation is clarifying itself during the spring months, as the real meaning of space flight and the sincerity of Soviet disarmament proposals are being appraised. Many things can happen before it is "finalized." Also, in the bright lexicon of government usage, finalize means "subject to administrative release of funds and the making of supplementary appropriations" between now and June 30, 1959.

This is quite evidently not a "crash" program. It does not satisfy those who believe our national honor requires that we crash the Pearly Gates before the Russians get there, or those who are convinced that the government should call out "horse, foot and artillery" to rescue the economy from the brink of an economic crash. But it seems to me to be good statesmanship for a democratic government learning to use the intellectual aids of a Council of Economic Advisers and a Budget Bureau. ■

A sound mobilization program depends upon wise resource-allocation



by Arthur W. Smithies

THE PROBLEM of national defense is riddled at every level with economic questions. This is not peculiar to defense, but because of the size, complexity and the changing character of the program, economic decisions should be made continually. In other areas the need for them may be dormant.

At the over-all level, decisions must be made concerning the proportion of the national income or resources that are to be devoted to defense. Within the total defense program, there is the vital problem of the allocation of the total among, say, the Army, the Navy and the Air Force that will contribute most efficiently to foreign policy objectives. At a more specialized level, there is the question of how particular weapons systems can be constructed with

maximum efficiency, in the sense that their components are combined so as to give maximum military effectiveness for a given cost.

Difficult and as yet unsolved economic problems arise on the supply side. Research and development yields its fruits, say, 10 years hence; and the military requirements then prevailing depend to a large extent on the results of the research and development itself. Under such circumstances, what is the rational way to plan research and development and on what scale should it be undertaken? At the procurement stage, how can the government get the benefit of competition, which is the mainspring of efficiency in the private economy? The old system of competitive bidding proved inapplicable to modern weapons and was replaced by the negotiated

contract. But adequate incentives for efficiency are very difficult to provide in such contracts.

This wide range of problems must be maneuvered by effective administration; emergency edict and exhortation from above are not solutions. In particular, it is notoriously true that cutting the budget does not automatically produce efficiency at lower levels. As long as the Department of Defense does not achieve efficiency at those levels, the appropriations committees face an awkward dilemma. They know efficiency can be improved, but they also know that cutting the budget is likely to reduce the scale of the defense program.

How are national resources to be allocated between defense and nondefense uses; and how should the broad allocations within the defense program be considered? Does a division of responsibility among the various armed services provide the most satisfactory basis for allocation in the light of modern defense requirements?

The Air Force is concerned, first, with providing a force of strategic bombers and missiles which can serve as a deterrent to attack on the vital interests of the United States and its allies. Sec-

ond, it maintains an air defense force designed to protect air bases and cities in the United States. Third, the tactical air force is designed to serve more limited purposes than the strategic air force, including support of the ground operations of the Army; and fourth, the Air Force provides transport for both its own and for Army units.

The Army's main function at the present time is to provide shield forces for the NATO alliance, and also forces to fight peripheral wars in any part of the world. It also shares, with the Air Force, responsibility for maintaining antiaircraft defense of United States cities.

The Navy, like the Air Force, is concerned with strategic bombardment, which up till now has been carried out by carrier-based aircraft. In conjunction with the Marine Corps, it has a vital role in peripheral engagements. It is responsible for defense against submarines and, in the future, for submarine-launched missiles.

It is charged that a serious lack of balance in the defense program as a whole has resulted from inter-service competition. All the services seem to have felt that their individual fortunes could best be advanced by stressing their own ability to wage a major war. They have assigned lowest priority to the tasks they are supposed to per-

Arthur W. Smithies, Professor of Economics, Harvard University, is a leading consultant on the economic problems of defense mobilization.

form for the other services.

The Air Force and the Navy have competed in terms of their rival capabilities for strategic bombardment. The Army, until a few years ago, seemed to conceive its major mission to be to march over Europe in the wake of a nuclear war. I am not suggesting that, as a result, strategic air forces or NATO ground forces are too large. I do suggest, however, that the services, and the Department of Defense as a whole, have been too ready to acquiesce to cuts in other essential elements of defense as long as their strategic forces are provided for.

Rational allocation

For example, the airlift needed to transport army units to trouble spots round the world simply has not been provided, and it is not provided for in the current budget. I believe at least part of the reason is that neither the Air Force nor the Army is prepared to give airlift a high priority. The Air Force believes that support of airlift requirements might prejudice its Strategic Air Command. The Army might reasonably feel that if it presses for increased airlift, its own appropriations will be cut and those of the Air Force increased.

If a rational allocation of defense resources is to be achieved, the program as a whole should be

considered by the President and the Congress in terms of the functions to be performed rather than in terms of the three traditional services. Our ability to deter nuclear attack, to defend NATO and to protect our interests in the rest of the world are all complementary and inter-dependent parts of the whole.

The enemy may believe, and he may be right, that we are unwilling to use massive retaliation to resist invasions into NATO territory or attacks on some of our SEATO allies. On the other hand, our tactical forces are unlikely to deter limited attacks, unless our strategic forces are also strong enough to deter an all-out attack.

The minimum forces needed to perform these functions must conform to some fairly definite criteria. If our strategic forces are to be an effective deterrent, they must be able to absorb an initial attack and retaliate in a devastating way with virtual certainty of success. Highly important questions of allocation arise in the determination of the strategic force itself. For instance, its survival can be increased either by a greater number of bombers and by dispersing bases, or by improved air defense. And we should rely, at least in part, on the mobility of the sea-based aircraft and missiles to ensure the survival of the strategic force. The optimum combination

of offensive strength and air defense is essentially a problem in quantitative economics.

Limited-war forces should be enough to meet a variety of contingencies all over the world. We need sufficient forces and sufficient means to transport them by sea and air to intervene, in conjunction with our allies, in areas where limited attacks are likely. The more we cut the size of these forces, and the more they are concentrated in the United States, the greater become the problems of transportation and the consequent costs. We have evidently preferred to gamble on the effectiveness of the strategic deterrent in all circumstances—a gamble that becomes increasingly risky as the strength of the enemy grows.

The defense of NATO presents extremely perplexing questions. Is it sufficient or desirable to equip our NATO partners with strategic missiles to be used in their own defense? Or, as former Secretary of State Dean Acheson suggests, is it necessary that a large shield of United States forces be ever-present in Europe to ensure that an attack on Western Europe amounts to an attack on the United States? These critical questions may be answered by default.

Inert and unimaginative

The need for a functional approach is already recognized in

the field of operations, particularly in the cases of NATO and North American Air Defense, where unified commands control not only the various components of our own forces but those of our allies. The same approach is needed for defense planning and programming, and particularly for the presentation of the defense budget.

I am not, however, coming to the easy conclusion that what we need is complete unification of the services. A single control could be inert and unimaginative. The Department of Defense must be vitalized by the competition of ideas. This can come in part from functional commands; the traditional spirit of competition among the services should not be lost, but directed into constructive channels like research and development.

The recent Rockefeller Report outlines a structure for the Department of Defense that aims at combining the virtues of unification with those of competition. I am convinced that both these aspects must receive due emphasis in any satisfactory solution.

There is no formula that can say how much the country can afford for defense. Economic analysis may provide some wide outer limits. For instance, limitation may be imposed by scarce materials or specialized capital equipment, or manpower may limit the

defense program at any particular time; but these limitations can usually be overcome, given time. For the longer period, defense on a scale that did not leave enough over to keep the population healthy or to keep the national capital intact would be described as beyond the country's economic capacity. Such a limit might be approached in an all-out mobilization of the World War II type. But it is certainly not even in sight in our current cold-war situation.

What we can afford as a nation under present circumstances depends more on our political willingness to afford it rather than on any economic limits. A large part of that willingness depends on public understanding of the external threat and the adequacy of the measures we are taking to meet it. I use the word "understanding" in contrast to the emotional reactions to foreign Sputniks or to the inspirational efforts of national leaders. We have relied too much on public emotion in the past. Such reliance leads to alternations between strength and weakness that we can ill afford. To remain consistently strong requires resolution based on understanding. Thus, the steps required to obtain an efficient allocation of defense resources are also needed to achieve consistent political support for the total.

There are lower limits to the

various parts of the defense program, below which defense as a whole is in jeopardy. As noted above, our deterrent forces must be sufficient to absorb an initial attack and retaliate in a devastating way with virtual certainty of success. But, in view of uncertainty concerning the enemy's capabilities, even this limit cannot be precisely determined. Beyond that, the defense program in its parts, and as a whole, is subject to calculated risks which different sections of the community are prepared to take in varying degrees. No one is prepared to pay the price of complete security. Some may be prepared to take security risks in favor of low taxes; others may be in favor of a welfare state.

Forces-in-being

Unless the nation decides to go underground, national defense should not cost more than, say, 12.5 per cent of our potential gross national product. Nor should there be any acute shortages of materials such as would necessitate the use of direct controls. In short, a sustained effort of the kind required is unlikely to require more than determined use of normal fiscal and monetary controls. A shelter program, on the other hand, would disrupt the normal operation of the construction industry. If fallout shelters for the bulk of the population were to be

provided in a period of a few years, normal construction operations would have to be largely suspended.

Even if war does break out, it seems to me that an "old-fashioned" mobilization is very unlikely. If we suffer an all-out attack, the problem will be to pick up the pieces rather than make use of anything like our present potential. A limited war is more likely to be decided by forces-in-being than by a mobilization that presses against economic limits. In that connection, it should be remembered that the purpose of the Korean mobilization was not so much to fight that particular war as to rearm generally. The end of that war, nevertheless, was regarded as an excuse for general disarmament.

A country's willingness to defend itself is reflected in the methods by which it is prepared to finance national security; and these methods, in turn, react on the national will.

If a country takes the ambivalent view that it wants defense but does not want to pay for it, the inflationary consequences of its indecision will build up mount-

ing public apathy about defense. If it regards defense not as a national responsibility, but as a suitable subject for minority taxation, it may dry up the sources of investable funds and impede the process of economic growth and rising living standards on which the acceptability of the defense program depends. On the other hand, a minority can undermine national defense by attempting to use it as a political instrument for the reversal of social reform.

The defense problem must be regarded as a permanent part of our national existence and not as a short-run emergency. In order to make defense a palatable thing over the long pull, it must be financed with due regard for other social and economic objectives: rising living standards, improved education, health and welfare, resource development and reasonably stable prices.

Provided we are willing to invest enough in defense to prevent war from breaking out, we have the resources to move toward all these goals at the same time. To be niggardly with the defense that we can well afford may prove to be a catastrophic false economy. ■

Recount for the Wives

IN THE election to determine the fate of the new United Arab Republic, the side for unification won a resounding victory—7,414,887 to 286. However, the taste of victory was embittered by an old desert chieftan who demanded a recount. He claimed that the figures were falsified because his 287 wives all had voted *no*, and he had personally supervised their balloting. Counting his negative vote, the figure reached 288.

Our economy can absorb a moderate increase in military spending, but major changes will require major sacrifices



THE FUTURE COSTS OF SURVIVAL

by Gerhard Colm and Manuel Helzner

NATIONAL DEFENSE, as the experience of the last decade has painfully taught us, is expensive. For the last 10 years, by far the largest single item in our national budget has been national defense. The likelihood is that these costs of the armament race will continue to rise until a practical agreement on arms control can be found.

In the light of these realities, some economists (and policy-makers) have wondered out loud whether such substantial and sustained enlargements of our budget will not undermine the strength of the American economy. These critics do not necessarily question the desirability of expanded government activities; they merely wonder whether we can "afford" them.

At present, this problem is largely academic as far as the President's budget recommenda-

tions are concerned. While the budget for fiscal 1959 provides more funds for the development and production of guided missiles and military airports, it also implies a severe cutback in conventional weapons and in the size of military forces in being. And except for the additional outlays scheduled for the federal highway program (which, in any case, do not appear as part of the conventional administrative budget), increases in some nondefense programs are offset by recommended cuts in others.

Indeed, many experts believe that the seriousness of the Soviet challenge requires a much larger effort. For we are being challenged not only in the technological and military field, but also in the foreign economic offensive and in our over-all economic performance. Recent events have highlighted many deficiencies in our capacity

to meet this challenge—in such areas as the development of missiles, in civil defense programs, in research and education. While no one suggests that these deficiencies can be removed simply by appropriating more money, increased efforts in these fields are required and will, undoubtedly, involve more funds. There are indications that Congress will indeed provide more funds for some of these purposes than requested by the President.

Could the American economy afford the substantial rise in government expenditures which such programs would require? What are the limits to our capacity to increase the defense effort without making substantial sacrifices in living standards and in the maintenance of our productive plant? At what point would we begin making serious sacrifices?

For the purposes of this article, we shall only consider the economic impact of increases in defense expenditures, although many of the same arguments would also apply in the case of other government programs. And while we shall consider the economic effect of utilizing more manpower, material and productive capacity for our national security, we shall not

attempt to anticipate such specific problems as, for example, shortages in engineering personnel, scarcities in critical metals, or the possibility of insufficient capacity in some industries, such as electronics, which might lead to production bottlenecks.

Aside from such specific issues, how much of an increase in defense expenditures can we really afford? At present, our economy is producing goods and services at the rate of about 430 billion dollars a year, which is approximately 25 billion dollars below what economists would describe as reasonably close to full employment. Indeed, it seems likely that if national security expenditures do not exceed the level proposed in the 1959 budget, the government will find it necessary either to increase non-defense programs or to reduce tax rates in order to promote recovery from the current recession and resumption of economic growth. In other words, it would be possible under present conditions to increase substantially national security programs merely by utilizing idle or unemployed labor and factories. To the extent that these resources would otherwise remain idle, such defense programs would not "cost" us anything in economic or social terms.

But that is not the whole story. For, in a period of economic recession, the government might seek

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to step up other nondefense programs or reduce taxes. Thus, a significant—and not necessarily very large—addition to the defense program would limit the practicability of such measures.

What, then, is our long-run capacity to absorb increasing defense expenditures? A growing labor force and increases in productivity suggest that we can expect an annual increase in our gross national product of about 3.5 per cent per year at constant prices—an annual increase of about 15 to 20 billion dollars over the next few years.

This increase in production and incomes would net the federal government an additional three billion dollars per year in revenues, even if there were to be no change in existing tax rates. Assuming that the economy continues to expand, this would mean that federal expenditures could be substantially increased over the years without incurring a budgetary deficit. Furthermore, an increase in national security programs by three billion dollars per year, out of a total increase in production of approximately 15 billion dollars per year, would still leave ample resources with which to increase consumption and make additional investments.

Although a 10-billion-dollar increase in national security programs need not create excess de-

mand pressures, the problem of price increases cannot be ignored. Prices rose in 1957 even though we had a budget surplus and were operating below full employment levels. This suggests that inflation may originate on the cost or supply side of the economy even when there is no excessive demand by the private or government sectors. Another consideration is that the mere announcement of large additional government programs might have an inflationary impact on business even before actual expenditures have been made. But this does not alter the basic conclusion that a 10-billion-dollar increase in defense programs, phased over a three-year period, could readily be undertaken at current tax rates. Indeed, without such an increase current tax rates could be reduced.

A different story

When we consider more substantial defense programs, however, the story is rather different. An increase in defense expenditures up to perhaps 20 billion dollars by 1962 might necessitate an increase in tax rates to Korean war levels and a drastic curtailment of other nondefense government programs.

At the same time, however, such an increase in the defense program would raise the nation's production capacity approximately 90 bil-

lion dollars by drawing more people into the labor force, by reducing unemployment, by providing more opportunities for overtime work, and so on. Thus, a 20-billion-dollar increase in government programs built up over a three-year period would absorb around a quarter of the potential increase in production. Nonetheless the "cost" of such a program would consist in a large increase in taxes, a severe limit on increases in standards of living and a strict limitation in both public and private nondefense investments. Also, inflationary repercussions of such a program might require the adoption of economic controls designed to reduce scare buying.

When we come to consider a defense program substantially larger than the additional 20 billion dollars (after three years), to rely on tax financing would imply

tax levels which would possibly interfere with needed economic incentives. Thus, if additions to the defense program build up to 30 billion dollars after a three-year period we would be at the threshold—leaving a "cold war economy" and entering a mobilization economy. The costs of such a mobilization economy consist not only in very high taxes and a drastic curtailment in the rate of progress but also in the necessity of giving up cherished economic freedoms. It would require most of the controls of a war economy.

At the moment it does not seem likely that we shall be faced with this extreme "mobilization economy" in the very near future. But there will be problems even with smaller increases in defense programs. If recognized, these problems can be managed, especially if all groups in the nation realize the need. ■

A Drive through the Bank

THROUGHOUT the nation, downtown areas of cities have been losing business to the suburbs. The Texas Bank & Trust Company of Dallas is trying to reverse the situation with the introduction of a drive-in bank that provides the customer with every banking service while he sits behind the wheel of his car.

The new bank occupies half a block adjoining the bank's conventional quarters; it has four floors, a mezzanine, a roof parking zone and two basements; its over-all area is about 160,000 square feet, with 60,000 used for banking and the rest for parking—a thousand cars a day. About 1,500 patrons can wheel into the bank every day and have their business transacted quickly since all of the departments are located near drive-in lanes. It is only to reach the safe-deposit and trust departments that the customer must leave his car for an extremely short walk. If he wants to make a loan or pick up a payroll, he need never take a step.

Defense spending can be used for economic stability—but it can also act as a bad substitute for sound national policy

DEFENSE SPENDING

by William S. Vickrey



*and the
business cycle*

BY NOW it is clear that the current recession is more severe than could possibly be justified by any need for a "readjustment" or "shaking out" process.

As of this writing, relatively little has been done to remedy matters. Monetary policy is still being used in homeopathic doses—too little and too late. As late as January, 1958, interest rates were scarcely half the way back from the high levels of October, 1957 to the low levels of June, 1954, though it was then already just about certain that the current recession will be substantially more severe than that of 1954. Unemployment is already substantially above the highest levels reached in 1954, with every indication that it will go higher yet. Since January, interest rates have pushed down fairly sharply so that they

are now approaching 1954 levels, but this further action has lagged so far behind the downward trend in business expectations that it is unlikely to have much effect in limiting the rise in unemployment.

The only corrective action of any magnitude seems to be the expanded missile program, and this is in large measure an unintended gift from Russia via Sputniks I and II.

Will the accelerated missile program, together with other accelerated defense expenditures, be sufficient to pull us out of the present slump? Perhaps it will, eventually. But there is many a slip between an appropriation and a paycheck. It is hard to evaluate just what the impact of the increased defense spending is likely to be, or what its time pattern will look like. Nor is it certain

how large and how long-drawn-out the cutback of private investment is going to be.

Economic forecasts have gone wrong before, and they could again. The one thing that seems clear is that even with the greatest increase in public and private defense outlays, the net stimulus to the economy is unlikely to reach a significant magnitude, relative to our 450-billion-dollar potential of gross national product, before next fall. Thus, even if the missile program should *eventually* pull us out of the slump, it is unlikely to do this as promptly as would be desirable. Moreover, the impact of the missile program is fairly heavily concentrated in a few areas and industries. Other areas and industries may have to wait even longer for the indirect repercussions to reach them and rescue them from their slump.

Can we really afford to wait and see whether the missile program will do the trick for us? The last 20 years should have taught us that it is neither necessary nor desirable to allow cyclical unemployment to go on unchecked. And yet we still persist in postponing deliberate controls until the very last moment. We would hardly be happy to see a bus driver caress down the road saying "look,

no hands!", even though he intends to grasp the wheel when the danger of landing in the ditch becomes imminent. At the moment, we seem to be already well off on to the shoulder of the road, yet the driver seems to be relying on a curve ahead labeled "missile program" to get us back on the pavement. We may manage to stay on the road, but the ride will hardly be a happy one for the one to three million *needlessly* unemployed—over and above the necessary turnover.

But if we do not want merely to wait and hope for the best, what can be done? There is probably little to be gained from further monetary relaxation. By this time expectations of businessmen for the near future have become so pessimistic that the mere availability of credit on slightly more favorable terms is unlikely to bring any great increase of investment. In the light of hindsight, it would have been desirable to have had a drastic lowering of interest rates to minimum levels at the first sign of a substantial downturn last September, before prospects had begun to look so bleak; a reduction sharp enough, at the very least, so that no further lowering of interest rates could have been generally expected. There is, however, no use crying over spilt milk; the chance was missed, and cannot be recovered.

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What can be done *now*? I believe that the most effective way of putting the economy back on the road to full employment would be drastic, temporary tax cuts (perhaps by as much as one-half, in the income tax withholding rates, with corresponding reductions in the nonwithheld parts of the tax) to take effect as soon as administratively feasible. True, the funds that the government thus fails to obtain by taxation it would have to get by borrowing.

Stimulating effect

But even if the only difference were to give consumers bonds representing amounts borrowed from them, in place of mere receipts given for taxes paid, consumers will *feel* wealthier and more secure with the bonds than with the tax receipts. They will tend to increase their outlays, and this will have a generally stimulating effect on the economy. Indeed, the mere announcement of a substantial program of this sort is likely to have a marked effect on business expectations, so that some re-employment may take place in anticipation of the increased market demand. Unlike the impact of the missile program, the stimulus will extend immediately to nearly *all* parts of the economy and will not be concentrated in particular segments.

The real difficulty here is polit-

ical. Past experience with this type of legislation makes it extremely unlikely that a tax reduction bill could be drawn up, introduced, passed by the House and Senate, and signed by the President—without delays running into several weeks. Different groups are apt to seize upon such an occasion to attempt to shift the tax structure in ways that they deem desirable, even if this should mean delaying the legislative process and prolonging the recession. For they know that once taxes are cut, even “temporarily,” it is difficult to restore them exactly to the previous pattern.

Indeed, it can be said with considerable justification that every time since 1918 that the Congress has meddled with the tax law, it has become more complicated, discriminatory and illogical. There is thus a danger that by making use of tax adjustments for counter-cyclical purposes we may be accelerating this degradation of the tax structure. The stakes, however, are large enough to warrant running some risk on this score.

Ideally, we should be prepared in advance for prompt changes in withholding tax rates, with a number of alternative withholding tables already distributed to employers so that differences in paychecks could make themselves felt within a few weeks of the signing of the bill. Even better, the fed-

eral government could adopt an arrangement similar to that practiced in New York State, whereby the governor is authorized to grant a general reduction in income taxes at his discretion, depending on the state of the budget. The scope for such action should be substantial: a cutting in half of all tax rates would not be an excessively wide limit. You cannot expect to keep the Queen Mary steady on her course with a canoe paddle, nor a 450-billion-dollar economy in line with an adjustment of one or two billions here or there.

Scope for administrative raising of taxes in times of inflationary pressure would, of course, be politically more difficult to secure. Fortunately this is not so badly needed since credit and monetary restrictions, if sufficiently drastic, are almost always able to cope with an inflationary situation, at least temporarily. Given sufficient *administrative* resolution, failure of Congress to raise taxes promptly as full employment is achieved, need not result in uncontrollable inflation. As long as the monetary authorities are ready to drive interest rates drastically upward when the time comes, the inflationary consequences of later difficulties in restoring tax cuts need not deter a tax cut now.

Thus, we have the means to pull us out of the recession much more

promptly and smoothly than any program of accelerated defense spending probably can. Of course, the impact of the missile program on top of the tax reduction begins to bring back inflationary pressures and overfull employment, then we must be prepared to reverse our policy and either push tax rates up possibly to even higher levels than now exist, or employ monetary restrictions sufficiently drastic to push interest rates to levels higher than have been experienced for a long time.

Muddle through?

Perhaps we would rather "muddle through" in the hope that the missile program will somehow pull us out of the slump. More is at stake, however, than just the state of our own internal economy. Even if we could afford the luxury of waiting it out, we have no right to impose the consequent burdens upon the remainder of the world with which we trade and who may be much harder hit by a U.S. recession than we are.

But there is another, perhaps even more important, reason why we must take prompt antirecession measures now. It is part of Marxist dogma that capitalist economies are inherently unstable and require gigantic defense expenditures and military adventures to keep them going. We may be convinced that our military ex-

penditures are not motivated by such considerations, but to the uncommitted nations (and even to some peoples within the Western orbit) this Communist argument may be all too plausible. An announced policy of waiting for our missile programs to pull us out of this recession (to say nothing of accelerating the program with this as one purpose to be achieved) can only tend to confirm the Marxist view. It is not enough merely to reject the Marxist interpretation verbally; we must show by our actions that we reject it.

But aside from the question of how public opinion abroad is affected, there is something morally degrading about the enjoyment of a prosperity that owes its existence to the preparation of instruments for the destruction of millions of innocent human beings. It is bad enough to be impelled to use a large share of our national resources in the monstrous pursuit of ever greater means of destruction. It would be calamitous if we should work ourselves into a position where we dare not re-

duce our defense expenditures for fear of provoking recession—or where our only answer to recession takes the form of increased military expenditures.

We are fairly certain that we know what would be needed, in a general way, to counteract a severe cutback in defense expenditure. But we are not as yet sure of being able to handle such a transition smoothly. What we lack is the administrative machinery and the detailed knowledge (and sureness of touch in using it) that can only be gained from experience. It would be unfortunate if, as the day dawns when we no longer feel the need for such wasteful activity, we were to feel compelled to continue it because of lack of skill in making such transitions.

We now have a golden opportunity to set up some of the machinery and acquire some precious experience with its operation; if we muff this chance, we may run on to a much more serious crisis as ill-prepared to meet it as we have been to meet this one. ■

Avuncular Hoax

RADIO AND TV sponsors have gone to ridiculous extremes to avoid giving a competitor even indirect mention on their own shows. W. C. Fields, however, surmounted this particular taboo, at least for a little while. On his radio program sponsored by Lucky Strike cigarettes, he introduced a mythical nephew named Chester. He referred to the lad as, "my brother's boy." For several weeks his Lucky Strike sponsors remained blind to the fact that the nephew's full name was evidently Chester Fields. Finally, the discovery was made and W. C. was ordered to liquidate his relation. He complied, but the joke was his.

Gordon Gray—Mobilization's Office Manager

THE first enemy nuclear bomb to fall on United States territory would perhaps make Gordon Gray the most important man in the country. The Director of the Office of Defense Mobilization would discover that his agency, now a shadowy satellite of the Executive sun, had become the center for the massive decisions of total war. Gray would be passing on Executive orders, if there were an Executive to originate them, and making his own decisions in a situation similar to that which created the Latin word *dictator*.

A mild and soft-spoken man, Gray, 48, is surely no aspirant to unlimited power, and his governmental career has been exclusively in the area of persuasion and planning. Strangely enough, the last burst of public concern about

With each issue, CHALLENGE profiles a person whose thinking affects the pace of the United States economy.



defense, occasioned by the Soviet Sputniks, ignored the ODM and its works. Indeed, the most direct result, as far as the ODM was affected, was to reduce its functions by a new Executive order.

President Eisenhower transferred the ODM's Science Advi-

sory Committee to the White House last November. This was no reflection on Gray; rather, it was an Executive effort to do what only the Executive can do.

Gray's functions were not essentially concerned with science and technology, although he was urging more development in that field before the headlines made it an obvious imperative. The ODM was established in 1953, taking over resource allocation and stockpiling operations once administered by other agencies, with the broader purpose of organizing the total civilian defense effort.

What has the ODM been doing? It has been spending the taxpay-

er's money. It has bought more than seven billion dollars of strategic materials for emergency stockpiles. It has urged defense plants to disperse their facilities away from the great target industrial centers. It has made many necessary studies and has helped shape administrative techniques of the various agencies to prepare for war disruptions.

The ODM recently made a survival list that included such items as oral electrolytes, surgical scrub brushes, razor blades, B-vitamins, enriched grain cereals, diaper cloth, obstetrical forceps, bulldozers, Geiger counters, sewer pipe and rat poison.

Gray's career might be confused for a Horatio Alger story. He entered the Army as a private in World War II, progressed to a captaincy and beyond, to Assistant Secretary of the Army, Under Secretary and, finally, Secretary. Once a junior member of a New York City law firm, he became president of the University of North Carolina in 1950. But Gray has inherited tobacco millions through the manufacturers of Camels, and if he began the hard way, he reached the deep-carpet stage very quickly.

It was Gray's flair for low-keyed diplomacy that brought him to increasingly important public and private jobs; and his reputation for quiet efficiency has triumphed

over frustrations and failures. The Psychological Strategy Board, of which he was director, was designed to coordinate the psychological aspects of diplomatic and military policy; it was just another Washington redundancy.

But Gray has won the President's gratitude for his masterful unobtrusiveness in the handling of the J. Robert Oppenheimer case. Gray managed matters so that minimum violence was done to principle or smooth government operations.

It might be argued that Gray's handling of the ODM has been too smooth. Although he has been in office less than a year, he has had time to arouse more attention to the enormous and bitter job of civil defense.

However, it took the Gaither report to go into such unhappy matters as bomb shelters. The ODM controls perishable foods worth almost seven billion dollars. But these food supplies have been collected to help the producer in a too-plentiful economy, and not with an eye to the consumer's need in a war-ravaged country.

Gray cannot be blamed for the lack of urgency and definition that hampers the ODM. If the country and its leaders want the ODM to do the total job it must do, and not the odd jobs it is doing, then they must first see the hardships and prepare to accept them.—D.F.

The objective of defense plus a high standard of living requires voluntary cooperation by big business and big labor

'TOGETHERNESS'



in a new context

by Arthur R. Burns

INTENSIFIED mobilization is possible only in a nation unified either by compulsion or voluntary cooperation. If we do not succeed by voluntary cooperation, we shall lose our ultimate objective of keeping open the widest possible scope for individual liberty. Now that economic power is concentrated in large business units and labor unions, much of the responsibility for maintaining the cooperative principle must fall on them.

Like everyone else in a democracy, business and labor must help to decide how large the military effort shall be. Doubtless, estimates of the military danger will differ. For the present purpose, however, we can assume that military expenditures will be considerably increased and that the intensified mobilization will continue for a number of years.

At the same time, it will not be

possible to make as extensive a diversion to defense uses as would be made during periods of actual warfare; for when a "hot" war is with us, the population can "live on their fat" partly on the anticipation of return to peace. During World War II, for instance, consumers ran down their stocks of automobiles, refrigerators, shoes, clothing and the like. Industries producing civilian goods let their equipment run down, and the railroads went into arrears on maintenance.

Over the long haul, however, such diversions cannot be so great that they weaken the economy. Housing expenditures may be necessary where the military program demands the relocation of workers. Education, health and research activities must be at least maintained. For, if vital parts of the economy are destroyed, the military program itself will falter.

Once a mobilization policy has been defined, the major problem will not be to combat resistance to the point of sabotage, but to overcome the temptation to flinch from necessary changes in the industrial structure.

Cautious businessmen

Businessmen naturally prefer to continue producing goods they are acquainted with. In industries where the production of military goods is likely to replace civilian output—aircraft machinery, chemicals and petroleum, for example—business leaders will be cautious; for while they know that intensive mobilization is more than a passing phase, they cannot count upon it as a firm, long-run policy. The thought that this struggle will sooner or later be ended by international agreement must be ever-present in their minds. Uncertainty about the timing of reconversion must, therefore, enter into the decisions of business organizations—and of labor unions, as well.

The discretionary power of business and labor leaders would be considerably diminished if the government decided to take unilateral action on behalf of its new defense goals. The primary instrument in the hands of the government is to increase taxation, which it has not yet done. If, under such circumstances, individ-

uals should reduce their purchases of some things for lack of funds, business organizations might reduce prices to maintain consumer production. If successful, this would mean that productive resources would not easily be diverted to defense uses. But there is little probability of such behavior. Business groups have not reduced prices when demand fell off during past recessions, partly because they believed the response to price reductions would be too small, and partly because they could not cut prices without some wage reductions, which labor unions would have resisted. On the other hand, a policy of heavier taxation would in time exert a force that business corporations or labor unions could not wholly resist, particularly in the convertible industries. Taxation would also seriously diminish any temptation to invest in facilities to meet the pattern of demand expected after reconversion.

The government can also take over from industry the power to control the use of productive resources. During World War II, for example, the U. S. government regulated the flow of many key materials among various users. It thus severely reduced the range of business discretion. But a much more intensive defense effort than

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is currently contemplated would be necessary to win acceptance for such far-reaching controls. Besides, such controls are expensive and difficult to administer.

Scope for discretion by labor and business groups is, therefore, likely to remain, both because centralized controls will probably be less vigorous than during World War II, and also because no economy can be absolutely, centrally controlled. It is within this discretionary area, especially in the earlier stages of intensified mobilization, that government policy can be impeded by the policies of the major business and labor groups, if these fail to cooperate. Imperfect adjustment will express itself in competition for resources by those who do not wish to release from nonmilitary uses the means of production needed to fulfill the military program. The result may be rising prices.

Expanded monetary base

These inflationary pressures may originate in various sectors of the economy, including the government itself. The government may fail in a time of full employment to match its added expenditures with equivalent transfers of income from individuals and business, through increased taxation and public borrowing. The population at large may be slow to adjust its spending habits and con-

tinue to finance purchases out of borrowing, ultimately from the monetary system. The business sector may try to do business as usual by continuing a normal pattern of investment, by reducing liquid holdings or by borrowing from the monetary system. Labor unions may obtain wage increases which are not accompanied by corresponding increases in productivity. Assuming that over-all production does not increase, such increases in money incomes will be financed out of an expansion of the monetary base.

Faced with such inflationary policies, the government can try further tax increases. But changing tax laws is a tardy process, and the results come in slowly. If private policies continue to conflict with public policy, the same inflationary forces continue to operate.

The government may also seek to curb inflation through monetary controls. But these measures suggest the shotgun approach and cannot be aimed to hit only the places where the trouble originates. The pressure will be applied both on the cooperators as well as the laggards. Moreover, monetary policy tends to favor the larger corporations, which hold larger bank balances and find it easier to obtain loans than smaller firms.

It is in this area—where failure to cooperate adequately will

raise prices—that the larger business organizations and labor unions can reduce economic tensions by collectively harmonizing their policies with those of public policy.

Of course, all resources are not convertible to the purposes of intensified mobilization, and all need not be converted. Nor can business concerns convert to defense unless they are sure that contracts will become available when nonmilitary demand declines.

But even then, the decision is not easy, and it is the fall in demand for nondefense goods which will have to provide the major stimulus to take on defense business. For one thing, defense contracts often require changes in production facilities and management methods. For another, some firms may lag in their conversion efforts in the hope that others will take over the defense work, leaving them in a better position to deal with postmobilization markets. Such dragging of heels can be avoided only if business generally, and defense firms in particular, wholeheartedly accept the government's program.

How can union action affect the mobilization effort? In the first place, labor unions can facilitate and speed up the reallocation of workers among places and jobs by appropriate policies regarding job classifications, union jurisdiction and the like.

The most difficult problems, however, will arise in the area of wage policy. The sharing of the national income between labor and other groups is always a problem, and it will not evaporate during intensified mobilization. Labor unions cannot be expected to cease pressing for wage increases because it is alleged that such increases will be inflationary; besides, the unions are not the only villains.

Need for moderation

But moderation in wage claims will certainly reduce the difficulty of achieving more armament. Attempts to maintain the aftertax incomes of workers on their pre-mobilization level would, if successful, throw the whole cost of mobilization on the other groups in society. Labor unions are unlikely to go that far, but they have to assume some of the responsibility for determining the workers' share of the cost of mobilization. It is difficult to say what this share should be, but it is preferable that it be decided openly in terms of tax policy rather than as a result of the combined effect of wage and tax policy.

Labor unions cannot, however, be expected to agree to reductions in federal welfare programs. Shifting such expenditures to state budgets will reduce the total welfare expenditures of the fed-

eral and state governments. Such a shift would, in fact, place part of the cost of the added military expenditures on the shoulders of those on public assistance—the aged, the blind, widows, etc.

Increases in national output would permit military expenditures to be increased without corresponding reductions in nonmilitary spending. Business leaders can increase their efforts to improve productive efficiency through improved production methods, better management and increasing the employment of women, the aged and groups suffering from discrimination. They can also devise ways to make more use of part-time workers.

Labor unions can minimize the effects of some of their more costly habits, such as featherbedding. They may acquiesce in increased hours of work. And together with business labor can minimize cessations of work due to labor disputes. Finally, the government might reduce its efforts to keep in agriculture workers who produce goods which cannot be sold at current prices.

The redirection of the productive machine may be facilitated by business recession—at least for a time. So far we have assumed that resources needed for the government program must be drawn from somewhere in the economy where they are already active. But

the current recession has already thrown workers and plant facilities out of use. Increased government spending can start to bring such resources back into use. It is difficult to tell at the moment whether the increased military expenditure will be large enough to bring us back to full employment. If it is, then all the problems of diversion in a time of full employment will reappear. In any case, there will be considerable delay, and resources now unemployed are probably not precisely those needed for the military program. These problems are likely to coexist for some time.

If we can bring our productive facilities to deliver in the right proportions, the various goods and services that will be demanded by government and individuals, we shall achieve reasonably full employment in all sectors and hold down the total burden of the change. The directors of large corporations and labor unions can contribute both to the making of policy and to effecting the necessary shifts of resources. If the resistance, or delayed and partial cooperation, of these groups impels the government to try to shoulder the whole burden of controlling the use of resources, the means resorted to may defeat our ultimate end—namely, the preservation of a reasonable degree of free enterprise. ■

Economics in **A**ction ---

navigation act

The economy was adrift. Volunteer helmsmen were converging on the tiller from all directions in impulses of varying urgency. The situation was not all bad; indeed, the apparently modest character of the slump was the reason for the slow responses. It had the effect of unreality produced by a slow-motion film.

Archimedean theorem

Lacking a consistent, unified leadership from Washington, the business community, the consumers and nonfederal governments were doing their unintegrated best. New plans for federal spending were moving slowly through the bureaucratic pipelines, but they would require considerable force to counter the results of last year's billion-dollar cutback. This year's increase of state and local government spending by three billion dollars will be helpful, and it indicates the new location of important antirecession leverage.

I am a camera

Caught in mid-motion, the slump seemed to have a limited reach. It embraced the durable-goods industry, an important but minority part of the economy. The service industries and home construction were expanding. Agriculture was stable and the consumer was still consuming, albeit a bit gloomily and more slowly.

focus

The fact that the recession was concentrated in the durable-goods industry meant that that victim was hard hit. Production was off the December, 1956 peak by 14 per cent. This was a sharp response to the shift in inventory demand that took place last year. Business was adding to its inventories during the first three quarters at an annual rate of two billion dollars. But it disinvested at a three-billion-dollar rate in the last

quarter of 1957. This meant a loss at an annual rate of five billion dollars during that brief time.

what price economy?

Prices moved so obdurately upward that observers were talking about an inflationary recession, a phrase bound to upset any conscientious student of classical economics. Wholesale prices went up 1.5 per cent and retail prices rose 3.5 per cent during last year. Bad weather will tend to keep food prices moving in that direction, while administered prices maintained a "sticky" effect by resisting price-lowering tendencies.

slowdown in superlatives

The slower rate of foreign economic activity has appeared clearly in our export figures. Our foreign sales were down 10 per cent from the peak of early 1957. The fall was clearly spelled out by the figures for the new dollar gap. After having achieved a fragile balance, our foreign customers found themselves on a backward-accelerating treadmill. The gap amounted to nearly a billion dollars for the one-year period from the last quarter of 1956. The effects will not be large enough to cause real worry; a half-billion-dollar fall this year from the 20-billion-dollar export peak, predicted by pessimistic observers, can be counterbalanced by minor shifts in our domestic economy. It is, moreover, important to note that the foreign economic situation is not poor in any sense. It has merely changed from fantastically good to just very good.

homecoming

The gentle expansion in home-building was a short-range sign that the long-range upward curve of the economy was still represented in some sectors. The fast pace of construction in the past few years has barely kept up with the increased needs of new families. The demand was ready to take advantage of last year's credit relaxation and it should still have the reserve power to respond to any new encouragements. The Administration was expecting an increase of 100,000 to 150,000 units over 1957's 990,000.

**short
delay**

No one who claimed a broad view was really worried, although representatives of the hardest hit sectors were articulating a keener distress and pointing out that unemployment was higher than it had ever been since 1941. The consumer had liquid assets of 303.4 billion dollars in addition to large holdings of stocks and bonds. Like everybody else, he felt that something could be done, and he was waiting for the word from Washington.

* * *

**order of
the day**

WASHINGTON—The anti-recession drive is the biggest news in town. These days it is unpatriotic to suggest that government-financed recovery programs will do little to aid the economy before next winter; that such programs do not constitute an adequate solution to the cyclical problems of a relatively free economy; that such programs allocate financial, human and material resources—with unfavorable aftereffects for years to come—which the private sector of the economy could use more rationally, and will want to start using within the next 14 months. But no one wants the political stigma attached to “keeping people out of work.” The order of the day is big government spending.

**action bests
explanation**

The problem is that the only language a nervous and less prosperous people can understand is the language of action, and it does not matter much that the action will look good now and smell worse later. It would avail the intelligent politician little to try to explain to his constituency the reasons why we are having a recession: because as a society we still do not understand the mysteries of a business cycle; because as an economic community we still cannot infallibly reconcile personal interest with the macrocosmic public goal; because the consensus on a principle of economic authority has not had sufficient time to shape the institutional expressions of 20th-century American capitalism. Such explanations would be meaningless, or at best academic, to people who are out of work.

**quick
medicine**

Government action does have some merit. It is the quickest acting medicine we know of to bestir a lethargic economic body. The painful aftereffects are conveniently distributed among the entire population, so the total cost of the potent medicine seems small when compared to the good it has done for the five or six million seriously caught in the recession.

**inflationary
erosion**

But government action always costs much more than we would like to believe. Even if there should not be a tax cut, the next 12 months will bring a budget deficit of about 5.5 billion dollars. Inflation will be as costly as any post-World War II period has ever experienced. A constantly rising price level will accentuate the extensive use of credit during the next period of business upsurge. More inflation will render almost useless every so-called built-in economic stabilizer. Then government will be called in to spend more money. There will be more deficit spending, more inflation, etc., etc. This is the process of erosion that is most worrying the nation's leaders today.

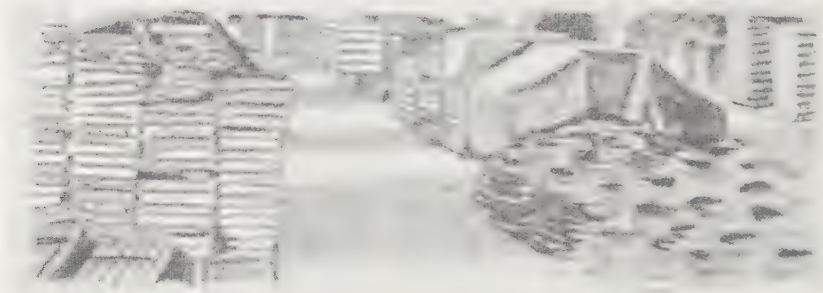
**good will
unappreciated**

Those who do not worry about the domestic economic scene have plenty to think about on the international scene. Our honest efforts to act as a mediator in the Franco-Tunisian controversy have forestalled possible further bloodshed, but neither party has come to appreciate American "neutrality." No permanent solution was possible; nor should one have been expected. But having failed to negotiate a permanent solution, our good offices failed to win a well-deserved appreciation.

**communist
opportunity**

Even more serious is the situation in Indonesia, where civil war invites further Communist penetration and precludes any further attempt on our part to soften the confiscatory action against the Dutch population. In fact, at this stage the best we can hope for is that the civil war will end quickly—before American oil interests in Indonesia also become an issue. ■

The Underdeveloped Areas



Where a little can go a very long way

by August Heckscher

FOREIGN AID and trade have been projected into the very center of American policy-making. Many programs vital to a nation's well-being demand sacrifices which make them unpopular; yet the unpopularity of foreign aid is of a special kind. It seems to go against all rationality that we should continue, year after year, to make available to others resources which we could well use ourselves, especially when the receiver often appears loath to acknowledge his gratitude.

A decline in our economic fortunes, however temporary, aggravates the sense of unreason. A liberalized trade policy does not arouse the same measure of hostility, and can be made to show many painless and even agreeable results. But there are points where it does hurt. That these two poli-

cies—trade and aid—should be linked inseparably as opposite sides of the same coin only adds to the dislike with which too many regard them individually.

The Soviets have been engaging in a massive and generally effective program. In the past two years they have given 1.5 billion dollars in pure economic aid. This may seem small compared to the billions of dollars which we have dispensed since the end of World War II. But in several crucial areas, as in Afghanistan, the Soviets have well outpaced us. Moreover, their aid has frequently been in such dramatic and visible forms—roads, arms, steel mills—that the propaganda effects have been magnified. If we are engaged in a world rivalry with the Soviets for the friendship of uncommitted countries, it is evident that we

cannot at this stage withdraw from the field.

Is the Soviet aid of necessity to our disadvantage? I do not think it should be so considered. The American interest is in seeing that the so-called underdeveloped countries are not taken into the Soviet camp. But there is much evidence that the governments of Asia and elsewhere are quite capable of trading and bartering with the Communists, without being politically subverted by the relationship.

In a larger sense, the American interest is to see the more backward countries lifted out of their poverty and brought into the 20th-century world. The world cannot exist peaceably with great wealth and great poverty side by side; and if this is true, then Russian help is a boon which we ought to welcome. It would seem to me the right attitude is to look upon the Soviets' program of economic aid as, in fact, a good thing. I would guess that the results would be most favorable to the cause of freedom and progress if aid is supplied from as many sources as possible.

The important requisite is that we be engaged in aid programs and that our own programs be administered on a sound and continuous basis; Soviet actions in

the underdeveloped areas are evidence that Russia has accepted as a verity the practical value of close relations with those countries. The Soviets see themselves in a state of perpetual mobilization—and those relations are an integral part of that mobilization.

The question of soundness is one that bothers many Americans. The amounts of money or other aid which at best we can contribute seem so infinitesimal compared with the needs of a country like India that the long-range prospects are discouraging. How can our aid, in Secretary Dulles' phrase, be "marginal" and at the same time be "determining"? The answer, I suggest, is that capital, equipment and technical help are essential ingredients in the process of economic growth, but that they are largely wasted unless the underlying situation is ripe for them.

A Twentieth Century Fund study emphasizes in a striking sentence the conclusion that "the really fundamental problems of economic development are non-economic." In order that capital accumulation and the growth of technology can make themselves felt, there must be the emergence of a class of risk-takers, the entrepreneurs; there must be a reasonably mobile society and the development of a wide market.

Americans are frequently dis-

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illusioned because they expect to go too quickly and to achieve too much at a stroke. Instances are on record of dams being built where the people at hand were not prepared to take care of them, or of Diesel pumps being introduced into a village where a nontechnical population could neither operate nor maintain such pumps. The need is to recognize how much can be done by simple means, not always to insist that the means be more ample.

There is also a natural tendency to stress rapid industrialization, even at the expense of a healthy and organic growth. Our own great wealth is the direct result of industrialization, and it is natural that we should be eager to see others move along the same path. Moreover, industrialization very often goes hand in hand with national independence, which our traditional anticolonialism favors.

Every sound analysis of economic growth has led to the conclusion, however, that where agriculture is not on a stable basis, where land-holding persists within a rigid, hierarchical framework, the whole social order remains backward. Inflation and unemployment arise in the industrial sector if the agricultural sector has not been modernized.

The exploitation of raw materials has been associated so long with colonialism that present-day

emphasis is on a rapid attainment of a balanced economic system. This is to the good; yet the less-developed countries miss one of their best chances if they do not make use of all their opportunities. To press toward industrialization before the people are ready for it, to neglect the development of God-given resources, is to invite disappointments and setbacks. The Soviets make their most dramatic gestures in the form of a steel mill, an oil refinery, an aluminum plant. They are themselves an example, moreover, of how a nation can force industrialization—though at a hideous cost in freedom. Americans believe, however, that the improvement of public health and education, and the development of modern agricultural methods, must go hand in hand with industrialization.

The inevitable

Another source of uneasiness for Americans is the way foreign aid programs so frequently put them at the service of government-controlled and even socialistic economics. We ask why we should be promoting economic systems of a kind we would deplore at home. Perhaps the easiest answer is that the interest of the United States does not require the economies of other countries to be patterned after our own. We want people to be free and to

attain a reasonable level of material well-being. But it is well to recognize also that, given the world in which these industrially backward countries must organize themselves and must accumulate capital, a degree of state control is inevitable.

Last summer, John B. Hollister, the retiring director of the foreign aid program, made an announcement which seemed to say that we would extend no more aid to any government-sponsored projects abroad. It turned out that the prohibition was far less drastic than that. But the International Cooperation Administration has, in fact, embarked upon a program to encourage private enterprise in underdeveloped countries. To say that we cannot expect everyone to follow our precise example does not mean that we should give up all efforts to see that methods of proven soundness be followed so far as possible.

Even when it is admitted that foreign aid is closely related to our national security, many arguments are invoked against the advisability of a more liberal trade policy. That some industries will be hurt cannot be denied; but there are many means available for reducing such damage to a minimum. Workers can be retrained, alternate lines of manufacture can be developed, and direct subsidies can be granted

to ease the immediate crisis.

Nowadays it is usually added that industries need to be protected in order to provide the "mobilization base" of the country—that is, to assure the production of needed goods in wartime. But there seems much weight in the argument that modern wars will either be limited, like the Korean conflict, with trade continuing; or that they will be of such short duration that only the materials in being at the outbreak will have a chance to effect the result. Every claim that a branch of manufacturing needs protection as part of the defense system should be subjected to the most careful scrutiny.

Self-defeating policy

A policy of foreign aid that does not have for its underpinning a liberal trade policy is almost certain to be self-defeating. The underdeveloped countries need a market for their raw materials, if they are to be able to achieve a healthy industrialization. It is true, as well, that we need these raw materials; three-quarters of this country's stockpiled strategic goods come from so-called backward countries. Much of Russia's aid has been in the form of barter. She has been willing and entirely able to absorb quantities of wheat, cotton and rice in return for her exported manufactured

goods and arms. Even where we cannot ourselves equal this absorptive power, we can hope to organize the capacities of the free world so as to make as wide use as possible of the products which the less industrialized countries have to sell.

Foreign aid has a general objective—the raising of the standard of living of wide portions of the globe. It also has the more specific objective of strengthening our allies and making our bases more secure. All of this fits in with our need to maintain a posture of mobilization. It is the same with trade. Some of the more crucial choices concerned with trade today concern strategic questions. Thus, the development of missiles means that the most direct line of attack on the United States crosses over Canada from the Arctic regions. Are the Canadians to be given the impression that our trade policies discriminate against them?

The programs which the President has asked of Congress seem modest enough in relation to the need. He has asked for an extension of the Reciprocal Trade Act for five years and for the right to reduce tariffs downward at the rate of about five per cent annually for the next five years. In

the field of foreign aid, he has asked for a sum of 3.9 billion dollars, of which 1.3 billions are for economic aid and the rest for military support. It seems unfortunate to have to argue, in pressing this program, that ruin and catastrophe will follow if it is not enacted without substantial cuts. More reasonable, and more worthy of a free and mature people, would seem the argument that if we do adopt this program, we shall be acting within our responsibilities as a leader of the free world.

The stakes we play for are large and the duration of the struggle is long. There is not likely in the foreseeable future to be any occasion when we can suddenly call a halt to our efforts. We must recognize aid given to the underdeveloped nations as a mobilization element—peaceable in spirit but effective in terms of force—of our security programs.

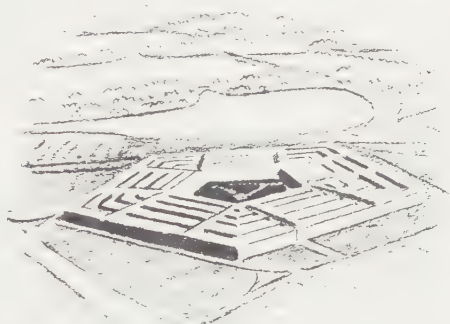
What we can hope is that foreign aid will gradually be transformed into a program of foreign loans and of private investments. But even this seems less important than that the desired objectives of the program should come nearer achievement. Then, and only then, would we have the prospect of living in a reasonably stable and peaceful world. ■

End to "Black Death"

THE World Health Organization reveals that only 514 cases of plague were recorded in 1957. This is a new low for the century.

The citizen can maintain liberty in the face of increasing centralization if he uses the avenues of responsibility open to him

Freedom in 'Fortress' America



by James D. Calderwood

A UNIQUE aspect of the Soviet threat to the free world is its all-inclusiveness. Every field of human activity, including diplomacy, propaganda, foreign trade, the arts, science and education, as well as military power, is being pressed into service as an instrument of expansion. Whether one regards this as "total war" or merely as "competitive coexistence," Americans are becoming increasingly aware that "national defense" now means much more than just planes, soldiers and bombs. Our survival requires a total effort.

A disturbing question raises itself as we mobilize our human and material resources. Mobilization in the past has meant an extension of federal government controls over our lives and our businesses. It meant, in both World War II and the Korean war, price and wage controls, priori-

ties and allocations, a proliferation of government regulatory agencies and, above all, higher taxes to finance huge increases in government spending. Will history repeat itself? Does our new effort mean that the federal government will now proceed to assume still more of the responsibilities for decision-making presently vested either in state and local governments or in private individuals? Do the new plans for federal aid to education mean that the tradition of local control over our schools is on its way out? Are we faced with the prospect of seeing freedom diminished by the very measures we take to defend it?

These questions become even more disturbing when one considers that the Soviet threat is not a short-term affair. The longest of our three wars of the 20th century lasted only 44 months. But we are not today in a situation

where victory in the conventional sense can be envisaged a few months or a few years hence.

The growth of government intervention in economic life is a process which has been going on for many years. It is caused by a variety of factors which have no direct relation to national defense, although defense efforts have accelerated the trend from time to time.

The tradition of free enterprise in the United States stems from our political and economic origins. The American Revolution was in large part a revolt against arbitrary economic controls exercised by the British government—the Navigation Acts, the Hat Act, the Iron Act, the Stamp Act and, in general, “taxation without representation.” The Founding Fathers therefore thought of government as the biggest potential threat to freedom and designed a Constitution which would prevent it from encroaching on personal liberties.

New kind of world

But after the Civil War, as we became an increasingly industrialized and urban nation, our economy became more and more complicated and interdependent. Farmers became dependent for their livelihood on distant markets over which they had no control. Workers were no longer independ-

ent artisans but employees working on a contractual basis for an employer whose ability to provide them with work depended on his ability to sell his products in national and even international markets.

In this new kind of world, four interrelated developments in particular have resulted in an increasing economic role for government: the need for protection, welfare considerations, the business cycle and national defense.

In the 1880s and the 1890s, the power of government was invoked through the Interstate Commerce Act and the Sherman Antitrust Act to protect the public against what was regarded as a private threat to freedom by business. The passage in 1947 of the Taft-Hartley Act, which imposed certain curbs on the activities of labor unions, might be interpreted in the same way.

It is perhaps difficult to draw a sharp line between “protection” and “welfare,” but this is unimportant. It is a fact that increasingly over the years government—federal, state and local—has been called on to “do for the people what they wish to have done but cannot do in their individual capacities,” as Lincoln once said. Government activities in the field of housing, education, health, pub-

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lic assistance, area development, irrigation and conservation have multiplied as our population has grown, as our society has become more complicated, and as our social conscience has developed.

The principal weapons

Since World War I, the business cycle has been responsible for a tremendous extension of governmental authority. The great depression of the 1930s brought about massive federal intervention to deal with the unemployment problem and was directly responsible for the passage of the Employment Act of 1946, which commits the federal government to policies designed to assure stability and growth. No administration, regardless of party, will now watch a depression develop without intervening to stop it. The principal weapons are the indirect ones of fiscal policy and monetary policy, reinforced by the so-called "built-in stabilizers" of farm price supports and social security payments.

It is apparent then that the trend toward a larger role for government is not something which is of recent origin and due just to war and defense efforts. It is a trend which is deeply rooted in historical developments and stems from the changing nature of our economy.

There is no doubt, however, that wars and defense efforts have

accelerated the trend. The wars in which we have participated in the 20th century have tended to create problems which persist long after the wars are over. The origin of our agricultural surplus problem can be partly traced to events occurring during World War I, although massive federal intervention in this field did not begin until 1929. Similarly, World War II increased our national debt from 40 to 275 billion dollars, with the result that federal agencies must now play a much larger role in the nation's money markets. Then, too, each war has increased the expenditures for veterans' benefits.

The extent to which wars—past, present and possibly future—influence federal spending and activity may be seen when we examine President Eisenhower's most recent budget message to Congress, which set forth projected federal spending for the fiscal year 1958-59. No less than 60 billion dollars, or 81 per cent of the total of 74 billions, is for three items—national security, veterans and interest on the national debt—all of which are related to past wars and current defense. By way of contrast, in the last full fiscal year before the Korean war, these three items accounted for a total of 30 billion out of a total budget of 39.6 billion dollars.

Now, as we move into the space age, we are faced with the prospect of an even larger role and of even more spending by the federal government. The cost of intercontinental ballistic missiles, space satellites and atomic submarines is fantastic. Foreign aid has become a permanent part of our foreign policy. And, quite apart from defense, the rapidly expanding population of the nation requires more highways, more schools and more public services of all kinds. Is it then inevitable that the trend toward a bigger role for the federal government will continue?

Can the state and local governments and private enterprise take over some of the responsibilities we have been discussing? We can assume, of course, that national defense, veterans affairs and interest on the national debt will continue to be federal responsibilities. But is it not possible for more of the nondefense activities of government to be assumed by the others?

The outlook is not encouraging. State and local governments are already finding it financially difficult to provide the services demanded by a growing population. The governors of the two most populous states in the union, New York and California, recently submitted record budgets to their state legislatures, with the bulk of the projected expenditures go-

ing for education, highways and public welfare. This is in spite of a tremendous increase in federal grants-in-aid in recent years, including the multibillion-dollar federal highway program begun in 1956. In both states, current tax revenues are expected to be inadequate to cover the planned expenditures.

Private accomplishments

Business, labor and other groups are accomplishing much on their own. Big corporations and organizations such as the Council for Financial Aid to Education, as well as numerous foundations, are contributing large sums of money to our schools and colleges for scholarships, construction and teachers' salaries. Labor unions, business and private groups such as the Blue Cross are providing millions of citizens with at least partial protection against the economic risks of sickness, disability and old age. Large corporations with overseas investments, such as the oil companies in the Middle East, as well as foundations and missionary groups, are doing magnificent work in bringing the benefits of modern technical knowledge to the people of underdeveloped areas.

Yet we must recognize that important as these private efforts are, they are not enough. The demands of our growing population

at home and of our politico-economic commitments abroad mean inevitably that government, particularly the federal government, will continue to play a dominant role. This is a bitter pill for many to swallow. But it is a fact.

If it be true, then, that we cannot reverse the processes of history, does it mean that our basic freedoms must be whittled away? A sober examination of the facts suggests that this need not be so, that on the contrary we can, if we manage our affairs with intelligence and imagination, continue to broaden the democratic basis of our way of life.

In the first place, we should not think of government as necessarily being something apart from the people and "governing" them. Government today is, much more than formerly, the expression of the collective will of the people. In the early years of our history, women could not vote, there was no direct election of Senators, and many states had property qualifications for voting. Above all, our modern system of education, which now covers the mass of the people and increasingly prepares them for participation in the processes of self-government,

did not exist in those early years.

Certainly the inhabitants of the Tennessee Valley or of the Lower East Side of New York City are freer now to enjoy the good life because of the TVA and the federal-local-government-financed housing projects. Certainly all of us have more freedom to enjoy our old age as a result of social security, and all of us can exercise our free choice as consumers more effectively because of the Pure Food and Drug Act and the antitrust laws. We do not have to fear government if it is doing something which we wish to have done but cannot do as individuals. It is not inevitable, for example, that federal aid to education must result in federal control of local education policies.

While we recognize that the expanding role of government in our economy creates grave problems, we should not feel that they are insoluble. Instead of thinking that we can materially reverse the process, we should concentrate on seeing that government operates efficiently, economically and democratically—in short, on making sure that it does not become our master but continues to be our servant. ■

Prep Schools in Front

ACCORDING TO the *Bulletin of Educational Philanthropy*, private preparatory schools are doing four times as good a job as public high schools in turning out leaders.

Percival F. Brundage

Director, Bureau of the Budget*

The Budget and Defense



Q *Mr. Brundage, why do we have a Budget Bureau? Would it not be more logical to have the budget-making functions of government concentrated in a key economic ministry such as the Treasury?*

A When the Budget Bureau was first established under the Budget and Accounting Act of 1921, it was located in the Treasury Department. Even at that time, however, the law specified that the Budget Director would report directly to the President and would not be supervised by the Secretary of the Treasury. When the Executive Office of the President was established in 1939, the Budget Bureau was transferred from the Treasury to the President's Office. This move was deemed essential because budget-making functions are not limited to financial procedures and decisions. It is the President who must make policy decisions, undertake new programs or emphasize one program rather than another. It would be extremely awkward to have one department head issuing orders to other department heads who are his equals.

Q *Does the Budget Bureau play any policy-making role?*

A Although the Budget Bureau is involved in much policy discussion, it does this in a staff capacity for the President. It does not make policy independently.

**NOTE: Mr. Brundage resigned as Budget Director on March 13, by which time CHALLENGE had already gone to press.*

Q Mr. Brundage, how does your Bureau go about the job of formally preparing a budget for presentation to the President?

A The preparation of the federal budget takes about a year. Thus, we began work on the budget for fiscal 1958-59, which was presented to the Congress by the President in January, more than a year ago. At that time, our staff began preliminary talks with the various government agencies to review their current programs and their plans for future programs. Then, in April, 1957, we went to the President and the Cabinet with preliminary expenditure figures. This was in conjunction with a report from the Council of Economic Advisers, and the Treasury on the probable economic outlook for the following year, and, specifically, what revenues we could expect under current legislation and what new tax legislation might be proposed. In the light of the Cabinet review, we re-examined the programs of the various agencies, and, in July, the President and the Cabinet made definite decisions on the approximate level of expenditures by the various departments. The departments next re-examined their programs and presented their detailed recommendations to us by September 30. In October and November, these were then further reviewed by our examining staffs together with the agencies.

Q What was the role of the President in this budget-making process?

A Of course, all important points were taken up with the President, who is tremendously interested in the budget process. He and the Cabinet then approved the final decisions, and the budget went to press in December.

Q How much backtracking is necessary whenever something dramatic happens, such as, for example, Sputnik?

A Just as in any business or family, there are always a great many changes. Following the Soviet success in launching an earth satellite and in developing long-range missiles, it was decided that we would have to accelerate some high priority defense programs. We sent up a supplementary request for additional new obligational authority of 1.3 billion dollars which has already been approved by both houses of Congress. We also added 2.5 billion dollars to our request for obligational authority over the amount which had already been approved for fiscal 1959.

Q *How else can you adjust the budget to unexpected developments?*

A Well, we can sometimes use authority to make transfers from one planned obligation to another. A department will come to us and say: "We should like to reduce expenditures on this project because it has been held up by design trouble, by strikes, or what-have-you. Instead, we want to use the money for another, more urgent problem." We have the power to approve reapportionments which shift emphasis within an appropriation.

Q *How will the new defense technology affect the size of future defense appropriations?*

A About four years ago, I made a review of the general level of defense expenditures and concluded that unless there were a drastic change in the cold war picture, we ought to be able to maintain our defense (including an adequate replacement program) for something like 30 billion dollars. We found it impossible to get down to this level because the cost of procurement was going up tremendously and because new and more expensive weapons systems were being invented.

Major security expenditures are about 45 billion dollars

Q *What is the level of defense expenditures right now?*

A Our major national security expenditures—including foreign military aid and atomic energy—are about 45 billion dollars. Under present conditions, I can't see this going below 40 billion dollars. On the other hand, I don't see why it should go up very much more above 45 billion dollars.

Q *How much of the increase in our budgets is the result of inflation?*

A It is hard to tell how much of the increased costs of government are due to the lower value of the dollar and how much is the result of bigger programs. Of course, it's the result of both.

Q *Will the kind of defense spending change?*

A Yes. This year we are proposing a reduction of almost a billion dollars in the procurement of conventional aircraft, ammunition and vehicles. We are reducing the level of forces because the new technology, while it calls for many more engineers and scientists, requires fewer soldiers and enlisted men. This trend will continue.

Q Isn't it rather difficult to make such changes? After all, we always have to have sufficient forces in being to repel any would-be aggressor.

A That is right. Take the B-52 bomber. At the moment, we have about 600, either in delivery or on order. The question is: What is the next stage? Shall we go on to produce supersonic bombers or shall we concentrate on various kinds of missiles? The President's position is that we shall need the B-36s, B-47s and B-52s for the next several years until these newer weapons begin to come in and by then, I think, we shall probably have either more advanced designs of manned bombers or of these newer weapons. On the other hand, if we start producing in much larger quantities what we are working on now, we are going to find that three years hence these will also be obsolete. So, we have decided to order a few of these newer weapons for now while we are perfecting them. We prefer to wait for mass purchases until we hit something we believe is really operational.

Q Mr. Brundage, approximately what proportion of our gross national product is being absorbed by government?

A We are currently spending about 10 per cent of our GNP on defense. Federal government spending on the whole accounts for somewhat over 15 per cent of the total GNP.

Q Do you think this is a reasonable proportion?

A Yes, I do. Prof. Colin Clark of Australia once said that he thought it would be inflationary if government took more than 25 or 30 per cent of GNP. Personally, I think that is too much. Indeed, I think that even the current proportion is too high. Taxes are too high for the best expansion of our economy. While I think our economy can stand this level for a number of years, I would hate to see it go higher.

Q Well, do you think that defense spending may go beyond the 10 per cent ceiling we have now reached?

A I think that is possible, yes. But unless there is some brand new development, I do not think it is probable.

Q And you think we can maintain our current 15 per cent ratio for all government spending?

A I certainly hope so. While you might get temporary rises in the percentage in times of national emergencies or economic recession, I do not

think it would be wise to have a greater proportion of government spending over an extended period of time. If defense spending eventually came to exceed 10 per cent of GNP, the over-all ratio might still be held to 15 per cent by preventing the nondefense sectors from rising above present levels, or at least from rising as fast as GNP.

The budget as a moderator of fluctuations

Q *Mr. Brundage, how effectively can the federal budget be used to affect general economic conditions?*

A It can be so used, although I do not think that this is its primary purpose. Still, I think that all economists recognize that in times of high business activity we should hold down the federal budget so it would not contribute further to expanding inflationary pressures. This was one of the factors that the President had in mind when, in the last two years, he held down his requests for new housing authority. The trouble is that it is very difficult to hold down federal expenditures when business is booming and to increase it rapidly in times of business recession. I do think, however, that the budget has been and should be used to moderate the depth and the extent of our fluctuations.

Q *To what extent did the current recession enter into your budget calculations?*

A When we re-examined departmental estimates during October and November, signs of a downtrend had already become evident, and we had to reduce substantially our revenue expectations and tailor the budget with such reductions in mind.

Q *When we try to estimate the impact of the budget on the general economy, what budget are we talking about? Is it the "cash" or "administrative" budget?*

A The "administrative" budget differs from the "cash" budget primarily in that it does not include such trust funds as the Social Security and Highway Trust Funds, which are financed outside of the budget either through payroll taxes, or, as in the Highway Trust, by special taxes on gasoline, tires, and so forth. The administrative budget gives an accurate picture of government income and outgo and generally

indicates the effect of government activities on the national debt. The "cash" budget, on the other hand, gives a useful measure of the net impact of the government on the economy.

Q As a man who has considerable experience with budgets, what do you think the possible size and composition of future budgets will be? Assuming that there is no substantial improvement or deterioration in the international scene, what changes in the budget of 1968 can we reasonably foresee?

A Looking ahead 10 years is very difficult. Naturally, I hope that some agreements with the Russians would have been reached by then which would enable us to reduce our defense expenditures. I also hope that it will be possible to reduce our programs for agriculture and veterans.

Q How do you think this can be done?

A In the case of veterans, I think this can be done if we place more reliance on general welfare programs which are available to all citizens and reduce overlapping between these general programs and the special programs for veterans. As for agriculture, I think that expenditures here can be reduced as we succeed in adjusting our agricultural production to demand and as the growing population and new industrial uses create a larger demand for farm products.

Q How about the over-all trend? Do you think budgets will grow bigger?

A In some parts of the budget the long-term trend—but not necessarily the year-to-year trend—is probably for increased government spending. A larger population and a larger national economy create larger work loads for some activities—for example, the post office and tax collection. Increasing urbanization and technological developments also bring problems which government at some level—federal, state or local—must deal with. But, as I have mentioned before, in a growing economy this need not mean a growing predominance of government in the nation's economic life.

Q Thank you, Mr. Brundage. ■



Everyday Economics

IF YOU are a World War II veteran and still desire to take advantage of your GI Loan privileges, you have very little time left to make the necessary preparations. Under the present law, July 25, 1958 is the deadline for would-be borrowers to submit applications to the Veterans Administration. The VA has power to underwrite home mortgage loans up to 7,500 dollars, and up to 4,000 dollars for loans made for the purchase or operation of a business or farm. Since you can expect the processing period for these applications to take about three or four weeks under normal circumstances, the fact that there will be a last-minute rush should urge you to submit your application before June 30.

On shore they signal



MANY boatowners would be interested to know that the U.S. Weather Bureau has made some changes in its storm warning signals. A

triangular red flag remains as day-time signal for small craft warnings. But for evenings, a new double lantern, (a red light above a white one), has been introduced. Gale signals have also been revised, with two triangular red flags lifted vertically as the day signal and a white lamp above a red lamp as the night signal. If you feel brave enough to battle a gale of not too overwhelming intensity, don't ignore a whole gale signal of a square red flag with a black center by day and two hoisted vertical red lamps after dark.

Metamorphic disaster



NEVER warm red wine by putting the bottle before a fire or dipping it into hot water. This trick turns red wine into vinegar. There is no reason for warming it at all, since most connoisseurs believe that red wine is best when chilled. But if you like it warm, let the wine stand for four or five hours

in the room in which it will be drunk, thereby allowing it to take slowly to the room temperature. About half an hour before you taste your *vin rouge*, remove the cork and lay it across the top of the bottle. For some inexplicable reason, this is supposed to make your quaff all the more pleasurable.

Margin of prevarication



IF THE government condemns your property for public use, you are entitled to receive its full market value as compensation. The fact that you claimed a lower value on this property when you made out your previous tax and assessments statements cannot be used against you to reduce the amount of compensation. Courts have ruled that allowance must be made for the owner's tendency to minimize the value of his property where it is in his interest to do so.

Younger the better



SOME medical authorities believe that immunization with the Salk vaccine may be started in infants as young as six weeks of age. The results of various tests indicate that immunity response among infants between two and six months of age compares favorably with that of children between sev-

en and 11 months of age. In several of these tests, the initial shots were administered to six-week-old infants.

Costly rejuvenation



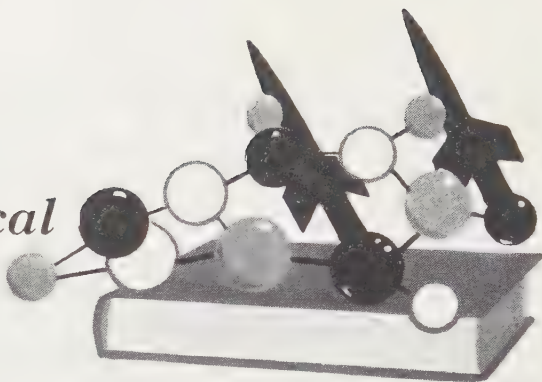
ACCORDING to a recent report, several million dollars were refunded to automobile policyholders for being overcharged because of a mistake in age classification. Many people, placed in the juvenile driver category for a considerable period of time, bore the financial burden of that age group. If you feel that your premium payments have been a bit high lately, check with the insurance company to see that everything is in order. If you have been overpaying, you may be sure of a refund.

Calculate your gadgets



A DEPARTMENT of Agriculture study indicates that your new electric refrigerator will be around the house for about 15 years. A new electric or gas range can be expected to last about the same length of time. A new washing machine has a more limited durability span, nine to 10 years at most. But if you buy these appliances used, chances are that the life expectancy will be cut in half.—L.B.

A *Technological Asset*



How will the growing emphasis on defense affect technological innovation?

THE DELIBERATE development of inventions and innovations for national defense is, in essence, the administration of the unknown. It is a task infinitely more difficult than, for example, the management of our Social Security program, despite the awesome complexity of sending millions of checks in the right amounts to the right people at the right addresses. In this case, everything is known and all the limits are precisely defined.

But how can you administer something that does not exist? The whole purpose of research and development is the production of things with four dimensions, with built-in time. The American people and their government have accepted the responsibility of directing efforts toward more and more inventions and innovations. The administration of such a national policy has been delegated, in both

a specific and a very loose sense, to various governmental and private organizations. How do the futuristic requirements of such a program fit in with the institutional and administrative realities of the United States?

Are we possibly wrong when we talk in terms of products, of things? There is a difference in principle between mailing out government checks or producing a loaf of bread, and setting out to establish a process that will create something that may not yet be defined by a clearly drawn idea. You can get nothing out of an enormous expenditure of resources; on the other hand, a fruitful development can occur by accident and without prior investment. Bread and money are much simpler.

What organizations are consciously concerned with the "progress of progress"? There are a great many in and out of govern-

ment. The Executive Department not long ago documented its responsibility with the naming of Dr. James R. Killian, Jr., as the President's Special Assistant for Science and Technology. Of course, the National Security Council and the Joint Chiefs of Staff help formulate policy on research and development, while the Defense Department engages in a plethora of such activities ranging from naval studies to wind-tunnel experimentation.

Last year private industry spent half of the seven billion dollars that the U.S. devotes to research and development. Large companies like General Electric [see *Challenge Interview*, February, 1958, page 42] base their future on continuing research. The results of this private work concern the government well beyond the strict limits of defense contracts. Scientific progress has become a highly centralized matter, and innovations, except for some classified items, are immediately adapted from the civilian to the defense fields, or from defense to the civil side. Plowshares are no longer beaten into swords because they can be regarded as defense equipment, while such military developments as high-octane gasoline propel the family automobile.

Leaders concerned with national

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defense thus extend their view to the organized efforts of private business to invest in the future. But, again, this is not the limit to their responsibility, and the recent discussions about our educational weaknesses and anti-intellectualism show that the administration of the unknown extends to the borders of the nonadministrable mind. Progress depends not only on organization, but also on the unorganized innovators and the atmosphere in which they live.

The element of the unpredictable is one of the most constant factors in the area of discovery. The scientists at Brookhaven National Laboratory recently developed a new principle important in the construction of an atomic furnace. They then learned that a Greek electrical engineer named Nick Christofilos, acting independently and without their great resources, had worked out the same principle a year before them. But the officials allocating funds for such organized efforts as the Brookhaven program would have been foolish had they canceled any part of the program, in the expectation that an independent researcher would duplicate the results.

Will new defense products and processes come at the expense of civilian items? It is obvious that a greater investment in research and development, provided it is used with a modicum of intelli-

gence, will produce more new developments. The discoveries of people like Nick Christofilos, obeying the laws of chance, will normally not duplicate other work and will represent a valuable surplus. Such independents, moreover, are influenced by the general level of scientific work and are continually making use of other innovations produced by the scientific community.

Important subtraction

But the results of today's research must wait until tomorrow before they begin to flow back into the national wealth in the form of usable products. This means the subtraction of a certain amount of resources from that store that satisfies our immediate wants. How important is the subtraction?

The effects of that subtraction influence not only civilian consumption but also the more traditional parts of our defense program. An increase in missile research will come at the expense of propellor-driven aircraft, helicopters and tanks, for example.

This shifting about of resources, moreover, will occur in both a full-employment and a recession-stricken economy. In the first case, the consumers and less-favored defense sectors will have to do without certain things that an economy working at full capacity simply cannot produce. In the second case,

the capacity will be available, but all the funds will not. Taxes would have to be allocated in such a way that civilian and some defense needs were slighted. Of course, a high level of mobilization spending would tend to bring the economy to the full-employment level, but there are no guarantees in economics.

If new products and processes are four-dimensional in character, the problem of financing them also takes on an eccentric time form. This is evident when we consider the subtraction of today's resources to produce tomorrow's research developments. The subtraction is an obvious and measurable factor on short-range terms.

Assume that the old production methods could result in 100 units. If we took away 20 resource units and devoted them to research and development, we would have only 80 units to satisfy our "normal" wants. Unless the new processes replaced those 20 units within a relatively short time, the reallocation would be written off as a loss.

But this mathematics is twisted about completely in the longer range. As we have noted, there is no clear demarcation between defense and nondefense developments. Almost any addition to defense technology can be applied to civilian production. Penicillin got into quantity production as a crash war program. The revolutionary

nuclear developments, taking their start in the mathematical musings of an "impractical" genius, resulted in a thoroughly destructive bomb and this, in turn, has led to such life-giving—on the individual and national scale—things as radioactive tracers and atomic power.

The character of modern science and technology is such that we cannot afford *not* to afford large expenditures for research and development. We can never be sure that a given program will succeed, but we can be sure that a national program will produce a net addition to national wealth. The only question is to determine the exact proportion of our wealth to be invested in research and development at a given time.

Imaginative judgment

This demands the most imaginative judgment. A given program may fail to reach its planned objective and yet produce equally valuable results in another area. Failure itself may make a useful addition to the stock of scientific knowledge.

The government should make an explicit effort to estimate the probabilities of success, but it should interpret success in the most subtle terms. The difficulty of this problem in evaluation can be seen in the competition between liquid and solid fuels in missile propul-

sion. The liquid fuels achieved the first success, but the solid propellants, despite many nagging difficulties, promise advantages of strategic importance.

On a national and world scale, the search for new developments is not a series of straight-line processes directed toward discrete points defined as the desired results. It can better be compared to blobs of ink dropping on a table top, spreading out irregularly in all directions and running into each other. Thus, the family of missiles has required metals with extraordinary properties that have a multitude of civilian and other military uses. The next step beyond the missile is the satellite, and the satellite becomes a small cosmos fantastically fruitful in new developments. Soaking up the results of other lines of research, the satellite can join with television, radar and other electronic discoveries as well as with instruments developed in light-wave research. Such a satellite can make maps, relay television programs, drop bombs, gather scientific data with a thousand uses and perform a multitude of functions that its creators have only begun to imagine and exploit.

The problem of allocation becomes as complex as the results of research and development. The structure of the economy is shaped in a way, for example, that tempts

industry and individuals away from the defense field. Private firms normally prefer the consumer to the government as a customer. Unless they are stirred by conscience and government prodding, they are likely to assign more funds and their best researchers to developments that promise expanded or new civilian markets.

Much of the most valuable research begins with an attack on problems that promise no immediate application. Those who allocate funds must fight the temptation to demand immediately usable results. This basic research, moreover is usually conducted by men who get smaller rewards than those engaged in development work closer to the final product and its profits. The government must find financial ways to encourage university researchers in their often frustrating and obscure experiments.

Beyond the problem of allocating existing personnel and resources is the need to encourage talented youth to enter the scientific field—and the need to edu-

cate it properly. The weakness in our secondary schools, both in science and other “hard” subjects, is an example of a misallocation of national resources. The low esteem accorded “the professor,” or “the thinker,” in the United States is, furthermore, an example of a misallocation of the country’s philosophy.

The history of scientific development in the 20th century alone is a process of ever-accelerating speed. Consider how far we have gone since the first kite-like airplane, the early automobiles and the first radio. Now, outer space calls to us in the tone scale of cosmic wave lengths. Already scientists are seriously considering antigravity as a manageable force, and a Russian researcher has announced that he has effected gravity changes at very low temperatures.

The only danger is excessive caution. With scientific history overrunning fiction, the imagination, and not a bookkeeper’s simple accounts, is the best measure of the costs and rewards of research and development. ■

High Road to Make a Low One

MARYLAND has a new highway, notably different from other highways in the state. The road is unusual because every phase of it was planned and engineered from aerial photographs. According to Maryland State Roads Commission engineers, all engineering maps, drainage surveys and even geological reports were made by an aerial mapping service. The highway commission said that the quality of these plans was so outstanding that aerial planning and engineering of this type should be adopted by other states in their highway construction.

A labor economist argues that a full-employment economy is the first imperative in marshaling the nation's defense potential

The Best Defense

by Nat Goldfinger

LAST YEAR was a turning point in our national history. Its full significance will be recorded by later historians. But for us, who are in the midst of current developments, it is a time of possible growing peril. Certainly, it is a time of challenge.

It became painfully clear, last fall, that America's world leadership in modern weapons and military technology was slipping. Forced-draft advances by the Soviet Union have supplanted the United States position in several crucial fields of military technology.

Even before the event of Sputnik, most Americans had become increasingly disenchanted with our national leadership in domestic and foreign policies. In August, an economic recession got under way. It was met with Administration talk about a "breather," although industrial production and employment were deteriorating. In the final weeks of the year,



Devaney Photo

unemployment was rising at a faster rate than the postwar period had ever seen.

Despite the obvious economic recession and the defense crisis, the President's Economic Report contained no analysis of how we had managed to achieve these difficulties. His budget message supplied no programs to meet the economic and defense challenges. Concentration on budget balancing was so strong that there was no proposed rise at all in defense procurement expenditures; but there was a much-exaggerated estimate of government revenue.

Candor and positive national leadership, above all, are urgently needed at this time. Unfortunately, these are qualities that have

been sadly lacking in our national life in recent years.

What is needed is quick government action to create a turnaround in economic activities. The national economy is the base for both improving living conditions and national strength. High levels of production and employment and economic growth are essential if we are to meet the needs of adequate national defense and a growing population.

Economic statistics

In the early weeks of February, about five million people were unemployed—more than six per cent of the labor force, after allowing for seasonal changes. Three- and four-day workweeks are widespread. Some 25 per cent of industrial capacity is idle.

The physical volume of industrial production dropped 8.3 per cent from August to January, and it was still falling in February. The gross national product declined from an annual rate of 440 billion dollars in the third quarter of 1957 to a rate of 432.6 billions in the fourth quarter—a decline of 7.4 billion dollars (annual rate)—instead of rising by a yearly rate of about five billion dollars per quarter to sustain normal economic growth. In the first quarter of 1958, GNP is continuing to decline—by an estimated rate of three billion dollars or more.

This decline has followed an economic lull in the first half of 1957—a period of slipping industrial output and of slowly rising unemployment.

The underlying cause of this general economic decline is a decided lack of balance between the economy's ability to produce and its ability to consume. Business investment in new plant and equipment, which was stimulated and partially subsidized by government tax policies, rose 34 per cent from the spring of 1955 to the end of 1956. In contrast, the buying power of per capita personal income began to slip in the spring of 1956. After the start of 1957, business investment began to level off, while key consumer markets and home-building remained weak or sluggish. Exports began to decline in the spring, after having risen in 1956 and early 1957, particularly following the Suez crisis.

With a growing gap between increasing productive capacity and lagging output and sales, there were indications that business investment would start to decline toward the end of the year. In the face of these signs of growing weakness last summer, the government further tightened the money supply, cut defense expenditures and severely cut defense contracts. It was these government actions

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that touched off the recession.

With weakness in business investment and in key consumer markets, a turn-around and substantial pick-up will largely depend on government action. Thus far, government action to lift the level of economic activities has been belated and meager. Much more than "chins up" talk and Madison Avenue advertising techniques are needed. A quick turn-around is essential if we are to move in the direction of the Rockefeller Committee's proposal for a national defense step-up.

The major task in domestic economic policy is to get America back to work—not in 12 or 18 months, but quickly. Idle manpower (some six per cent of the labor force) and idle productive equipment (25 per cent of industrial capacity) must be given the opportunity for full-time and useful employment.

Job to be done

If we are to halt the recession—and if we are to begin to meet our defense needs—the job of getting America back to work must be undertaken, without delay. Funds should be placed into the spending stream, to lift the level of economic activities and to resume economic growth.

Defense expenditures should be stepped up. Federal government expenditures for school and hos-

pital construction should also be increased and the federal-state road building program should be speeded up. The government should adopt comprehensive programs in the field of housing and urban redevelopment, as well as a program of assistance for communities suffering chronic economic distress.

The federal tax structure should be overhauled. A first step in this direction should be an immediate cut in the federal individual income tax, particularly on the tax burden of low- and middle-income families. Should additional revenue be needed, following a substantial economic recovery in the coming year or so, as much as nine billion dollars of additional revenue could be raised by closing loopholes of special tax privileges for wealthy families and corporations. Steps to close these loopholes in the coming years should precede any attempt to increase individual income tax rates.

The federal minimum wage law should be improved to extend coverage to millions of low-wage workers in trades and services. Additional federal standards are needed to establish more uniform unemployment insurance systems in the states.

If the national economy moves rapidly toward full employment in 1958, and maintains high levels of production and employment in

1959, a national output rate of between 470 and 475 billion dollars could be achieved by the end of 1959 or early 1960. This would make possible an increase in defense expenditures of seven to nine billion dollars above the 45-billion-dollar rate of the last three months of 1957, while permitting improvements in living conditions for the American people and some increases in the government's civilian programs.

With more people working full-time schedules and earning greater incomes, and with business making more profits from greater output, government revenue would rise without increasing the tax rates.

An increase in the rate of national defense expenditures to as much as 54 billion dollars by the end of 1959 or early 1960 would enable the nation to move toward a fairly rapid conversion to modern arms, while maintaining a high level of conventional armament. The basis for such a step-up of national defense expenditures, while improving federal public services and welfare programs, is balanced economic

growth and high levels of production and employment.

Should it be necessary to step up defense expenditures by more than three billion dollars a year in 1960 and in several ensuing years, some increase in the federal tax base may be required to carry adequate defense and civilian programs. Any change in the federal tax structure, however, should be equitable and based on ability-to-pay. The tax structure's progressivity has already eroded, and this erosion is an underlying cause of the current recession. No increase in individual income tax rates should be contemplated before steps are taken to eliminate tax loopholes for upper-income groups and corporations.

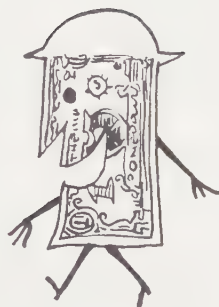
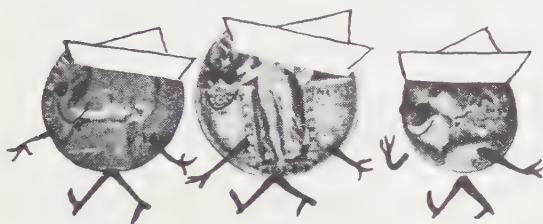
The immediate task, however, is to obtain high levels of production and employment as rapidly as possible—to take up the slack of five million unemployed, of many others underemployed and of idle productive capacity. Substantial economic growth is what is required in the months ahead to provide the basis for meeting the needs of national defense and a growing population. ■

This Side of Respectability

GENERALLY, the world of business has attained a greater respectability in recent years, but this is not the case with salesmen. In a free-association test, a group of college students were asked to write down the first five words that came into their minds at the mention of "salesmen." The majority of them revealed: (1) fast talker; (2) high pressure; (3) door-to-door; (4) ulcers; (5) extrovert.

Mobilizing the Money

by Samuel S. Shipman



Recent increases in productive capacity have kept investment needs for defense down to moderate size

THE RECENT increase in U. S. defense expenditures has raised many questions about the economic implications. An important field of inquiry is the potential impact on our investment needs and resources. Will capital expenditures be greatly magnified by the new defense effort, and, if so, in what fields? How will the new program be financed, and what will be the effects of this financing on the money and capital markets? Will defense requirements be met at the expense of the investment needs of the civilian sector of the economy?

The answers will depend on the magnitude of the defense program. The only definite indications we have are those given by the federal budget. In his budget message to Congress in January, President Eisenhower requested immediate additional spending au-

thority of 1.3 billion dollars for the Department of Defense for the remainder of the fiscal year 1958 (ending June 30), and a further increase of 2.5 billion dollars in fiscal 1959.

These increases were to be applied principally to accelerate procurement of missiles and nuclear weapons and to speed up research and development programs. The expanded outlays were, however, to be partly offset by a decline in spending for other weapons and aircraft of declining importance.

The resulting outlays for national security are estimated at 44.9 billion dollars in fiscal 1958 and 45.8 billions in 1959, as compared with 44.4 billions in 1957. These totals represent a very modest rise in total defense spending during the period immediately ahead. Furthermore, the impact on investment can be appraised not

from the total but primarily from the amounts to be spent for procurement of weapons and equipment. This is because other expenditures do not require substantial capital investments.

Moderate rises

For fiscal 1959, the amount to be spent on purchases of aircraft, missiles, ships, vehicles, weapons and other military equipment will total 13.8 billion dollars, as against actual outlays of 13.6 billions in 1957. Research and development, together with construction of military bases and training of reserve forces, will absorb 6.2 billion, as against five billion dollars in 1957. Other expenditure rises will be similarly moderate.

The increase in defense outlays scheduled for next year is thus small. Moreover, a large part of the total expenditure will go for operation, maintenance, military pay and administration, which do not make any sizable capital demands. The relatively small expansion in procurement, construction and development activities, however, does not in itself indicate a similarly small impact on investment, since within these categories a considerable shift in emphasis is taking place. Purchases of older types of weapons and equipment are being reduced, while purchases of the newer types are being stepped up.

For example, expenditures for missiles and related programs will cost 5.3 billion dollars in 1959, as against 4.3 billions this year and three billions in 1957. Furthermore, much of the program will be concerned with weapons developed only in the last year or two. Aircraft procurement will drop from 7.5 billion dollars in the current year to 6.9 billions in fiscal 1959. But here again there is rapid change in the character of equipment and weapons. For example, all of the Air Force fighters and bombers to be purchased with 1959 appropriations will be capable of supersonic speeds and of using guided missiles and nuclear weapons.

Despite these developments it does not appear that the quickened pace of defense orders will have a major impact on investment. To a large extent, the new equipment and supplies will be produced by existing plant facilities. The explanation lies, first, in the enormous increase in U. S. productive capacity since the Korean war. Secondly, the further development of the new types of weapons represents a continuation of a process that has been going on for a number of years. Even in 1955 there were substanti-

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al expenditures for missiles, while large-scale atomic development, of course, goes back much further. The pronounced shift in emphasis to air power started several years ago. Since 1952, annual Air Force outlays have *increased* by 45 per cent, while the cost of Army defense has been *reduced* by more than two-fifths, and Naval defense has increased by only five per cent.

The real postwar defense build-up began in fiscal 1951 in response to the Korean conflict. In that year national security outlays jumped from 13 billion to 22 billion dollars. In the following year they more than doubled; and in 1953, they reached the postwar peak of close to 52 billions. They leveled off at 42 billion dollars in 1955-56. Thus, the 1959 estimate of 45.8 billions is still much below the peak postwar expenditure and represents only a gradual increase since 1956.

Even though the appropriations will probably be further increased, the picture is not likely to be radically changed unless there is a major shift in the international situation. The replacement of obsolete weapons and installations by new ones will, of course, necessitate some new capital outlays. But in the main the investments will comprise modifications and adaptation of existing factories and equipment.

To stimulate rapid expansion of

productive capacity needed for defense, the government, under the Revenue Act of 1950, inaugurated a program permitting the cost of certified new production facilities to be charged off for tax purposes over a period of five years. By October, 1957, certificates of necessity permitting rapid tax amortization covered investments of 23 billion dollars.

Upsurge and impetus

Business spending for new plant and equipment rose from an average of 20 billion dollars a year in 1949-50 to an annual average of 27 billions in the following five years. The impetus provided by the upsurge in consumer spending, housing and commercial construction and outlays of state and local governments swelled the total to 35 billion in 1956 and a record 37 billion dollars in 1957.

Manufacturing capacity has expanded at rapid rate since 1950. From 1950 to 1955, capacity increased by about one-third, while manufacturing output rose by 24 per cent. Since producers generally prefer to have some excess capacity, the plant normally held to be available was fully employed at that time. In fact, there was still a shortage of capacity in most lines. In the following two years, however, manufacturing capacity rose by an additional 10 to 12 per cent, while production increased

by only three per cent. Moreover, the production level in January, 1958 was nine per cent below that of December, 1956.

What has happened in the basic industries most closely linked with military production? During the past decade, steel capacity has increased by one-half, with the 1957 expenditures for new facilities the highest on record. In January of this year, however, the industry was operating at only 56 per cent of capacity as against 97 per cent a year before. Since 1950, the productive capacity of plants producing nonferrous metals has expanded at the rate of about 10 per cent a year. Yet, at the end of 1957, output of the primary metals, copper, lead, zinc and aluminum, was only about 45 per cent above the 1950 level and five per cent below that of a year before. The capacity of the industrial machinery, chemical and automotive industries has expanded at a similar pace, and aircraft and electrical equipment facilities even more rapidly. Thus, the general situation is one of overcapacity, ample to cover any gradual increase in defense needs.

Sizable investments

The expansion of the missile program will involve sizable investments in certain specialized fields. The enterprises mainly involved are those producing the

new types of fuels and propulsion units, electronic devices, instruments and the over-all frames and assemblies. By and large, however, the work will be done in existing plants and will be concentrated in a relatively small number of companies.

Soviet Russia's recent scientific achievements will also spur our expenditures for research and development. Such outlays are estimated in the budget message at 3.7 billion for fiscal 1959 as against 3.4 billion dollars in 1958. Of the total, 3.1 billions will go for defense and atomic energy. Research and development expenditures by private industry reached about six to seven billion a year in 1956-57 as compared with five billion dollars in 1955. Some of these programs will probably be increased in the period ahead.

These activities will require new investments for pilot plants, testing facilities and laboratories. But while they are costly, they will not put any considerable burden on our productive capacity. It will take several years before the new achievements are reflected in any substantial increase in capital investments.

It is in the light of these considerations that the financial impact of the programs must be appraised. The immediate future sees only a relatively small budget

increase and a small deficit. The development of the new weapons is therefore not likely to have an important immediate effect on the investment market.

Decline in spending

Present plans indicate a considerable decline in business spending, which will mean reduced borrowing in the long-term capital markets. This slack may be taken up to some extent by increased borrowing by state and local governments and an enlarged demand for real estate mortgages. But the flow of savings into the principal savings institutions should remain at a high level. The long-term market should therefore be able to absorb a moderate amount of government bonds issued to raise new money. Moreover, the current business recession will weaken the demand for bank loans and therefore tend to expand the banks' portfolio of government obligations.

In the event of a budget deficit of the magnitude of, say, five billion dollars, the financing would certainly put some strain on the capital market. It would then be necessary for the Federal Reserve authorities to ease the money market considerably.

In view of the downturn in business activity, it is fair to assume that the Federal Reserve will continue to pursue a policy of

credit ease. This will expand reserves of the banks and enable them to buy additional amounts of government securities. If, as a result of expanded defense outlays, business should again resume its upward trend, the ensuing inflationary pressures might again cause the monetary authorities to tighten credit. However, government revenues would then be larger and the threat of a large deficit would disappear. Unless, therefore, security outlays should show a further considerable increase at that time, the capital market could absorb the impact of the defense effort without any difficulty.

Furthermore, the coming of the missile age—at least under present planning—will not force the American people to reduce their standard of living.

At the time of the outbreak of the Korean war, it was necessary to reimpose Federal Reserve controls on consumer and real estate credit in order to channel scarce materials and labor into the defense build-up. Since then, however, there has been a great expansion of the economy and we now have a considerable amount of unused plant capacity, manpower and materials. It does not appear necessary, therefore, to neglect vital civilian needs in order to meet the expanded defense requirements. ■

How Much Cutback for Consumers?



by Albert Lauterbach

Americans must prepare to consume fewer private goods—but they can compensate by emphasizing the better, less costly things of life

THE SPUTNIK alarm has made many people realize that we have to get accustomed to living with crisis. It has also led some people to examine our spiritual and intellectual capacity to do so.

For example, efforts are being made to reconsider our concepts of leisure and education. Sen. J. William Fulbright (D.-Ark.) charged in a speech early this year that the United States has developed a society in which "an Elvis Presley makes more than the President of the United States." He said that there was a general climate of anti-intellectualism that was the result of a neglect of education going back a long time.

Education may well be the outstanding case of a thorough re-examination of consumer values that has exploded traumatically as a result of Soviet scientific ad-

vances. It would have been more dignified to have discovered the values of science and education on their own merits, rather than as a by-product of fear. The impact of this sudden discovery, however, is likely to last.

People may be more inclined in the future than they have been in the past to grant education a higher rank on their list of priorities. One can dream of the time when universities and public libraries will not act as apologetic beggars for funds they need desperately.

The federal budget for fiscal 1959 suggests a future where the consumer will get a smaller share of the national income than he has been getting in recent years. In his State of the Union message, the President said that in spite of the budget increase to 74 billion dollars, "We should strive to fi-

nance the 1959 security effort out of expected revenues." Receipts from individual income taxes in 1959 are estimated at 38.5 billions, compared with receipts in 1957 of 35.6 billion dollars. Nearly two-thirds of the total expenditure is to be spent on national security programs.

The possibility of tax cuts to fight recession tendencies should not be discounted, but this would, at best, be a short-term matter in face of a long-range rise in governmental responsibility. We can expect that the government will go on spending more and more money on national defense. We can also anticipate that certain activities, once considered virtually autonomous areas, will become more closely identified with organized action for security. Thus voices have begun to call for important federal subsidies to education in response to the Soviet mobilization of the classroom.

In addition, the consumer can expect more pressure from state and local taxes if civil defense is to be increased. The President's annual Economic Report to Congress for 1958 indicated that state and local outlays have been rising at a rate of three billion dollars a year.

Thus the consumer, in his char-

acter as a citizen, is faced with increased demands on his dollar from all sides. His disposable income is likely to shrink. He may not be able to draw on savings sufficiently to compensate for the increased outgo. Caught in the interplay of inflation, recession and taxation, the consumer may find it difficult to keep up his buying habits over the years to come.

This might not be a bad thing, altogether. David M. Potter in *People of Plenty* concludes that "abundance has exacted a heavy psychological penalty for the physical gains which it has conferred." Some wasteful aspects of American life indicate that many of us are trying to fill out major fissures with cotton batting. A moderate defense austerity might prove that dignity and happiness can be pursued by means other than overpowered automobiles.

Possibly a modification of some of our "abundance" habits might help to change the permissive inanities of child-rearing. There might be fewer adolescent anxieties and delinquencies. The child's scale of values might be improved if he were not overfed, driven to school, overheated indoors and underexposed outdoors. It might even do him good to work harder in school and learn as much as he can learn. A more sensible scale of values could result in a downgrading of rock 'n' roll and more

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respect for superior intellectual activities.

The consumer is concerned today with changes in both objective and subjective matters. Such tangible factors as taxation will have relatively limited effect. The major impact will be made by consumer attitudes in the general atmosphere of a prolonged-defense economy. Will the consumer conclude that he can go on his way of abundance because he has lived in comfort through a number of crises in the past decade? Will he go on spending freely from his disposable income and savings in spite of periodic war talk?

Or, will the consumer succumb

to feelings of national emergency, impending doom or patriotic sacrifice? Will he prefer to reduce his spending instead of drawing on his credit or reserves? Will he respond to soothing advertising, or will he stick to his attitudes once they are formed?

The answer to these questions will depend on the length and intensity of the emergency as perceived by the consumers. Certain long-run changes in the value system of the American consumer, however, appear to be underway already. Some of the readjustments due to the emergency may merely dramatize attitudinal trends that have been taking shape

Three Views on the American Way of Life

- "In all American homilies to which I listened, the word *God* did not reverberate more often than the word *money*. . . . It is perhaps because too often they have emptied European religions of their intellectual contents that they have no choice between music and convulsions."

—*Georges Fradier, French journalist*

- "For here lies the true contagion of American culture. Whatever its aesthetics, it is above all else a proclamation to the world of the cultural enfranchisement of the common man. It is his *culture*, his own version of the pursuit of happiness—and a raucous ultimatum to a society that never allowed him to trespass quite so far. To a Europe that is still culturally an aristocracy the symbols of enfranchisement are often vulgar and shoddy. But is it the vulgarity of these symbols—or their implicit revolutionary promise—that makes them so profoundly disturbing? It is the Europeans, not ourselves, who are obsessed by the bathtub."

—*William H. Whyte, Jr., Assistant Managing Editor, "Fortune"*

- "It is not what separates the United States and the Soviet Union that should frighten us, but what they have in common. . . . Man is treated as a means and no longer as an end—this is the indispensable condition of the two cultures that face each other."

—*Francois Mauriac, French novelist*

for other, more profound reasons. A great revision of consumer values, for instance, has been going on for years toward a greater emphasis on insurance, retirement arrangements, travel and leisure. There are indications, however, of a far more sweeping re-examination of consumption patterns.

Problems of plenty

The comments of Sen. Fulbright and Prof. Potter show that harder thoughts are being applied to our problems of plenty. Americans are beginning to feel that they have been fooling themselves in various ways. The increased interest in national and international problems is leading to a better awareness of some unkind realities.

The reduction of certain types of spending in the interest of national security may encourage a reappraisal of what the consumer needs to feel happy. He may find himself with somewhat less disposable income and some shortages resulting from a reallocation of productive resources. He will neither starve nor go in rags, as long as there are no actual war operations, but he might find that last year's model looks good enough to keep. He may encounter new delays in trading in his old television set for the long-anticipated color model. Even metal chairs and ordinary garden tools

may not be easily obtainable, especially if the consumer has set his mind on a specific type. He may find that he must settle for whatever goods are available, perhaps at rising prices, instead of choosing from any number of brands. He might even have to do without some brands he had been used to.

Quite possibly the consumer may react by "throwing the rascals" out of office—if he can decide who they are. But it is possible that he will search his soul and ask how many of the missing things are really missed. He is not likely to fall into the other extreme and start preaching—and living—the virtues of the ascetic life. But he might be able to face life without air conditioning in every room he passes through.

Hollywood and hard liquor

Perhaps we have let our imagination go wild and even a lasting defense pressure on the consumer's purse and value system will fail to have any far-reaching effects. But if it does, the impact will be felt not only at home but in the outside world. Rightly or wrongly, the American consumer has often been associated by other nations with materialism, softness and cheapness, as symbolized by Hollywood, hard liquor, high-pressured advertising and gruesome comics. Supermarkets have

been admired, but commercialization has not. Nations in need of American aid, especially underdeveloped countries, have often been wary of "Americanization" in the sense of the consumer values described, and have been wondering whether this is an inevitable alternative to keeping out of the Soviet way of life.

A reappraisal of consumer values may persuade both the outside world and the American consumer himself that all of his way of life in recent years need not be taken for granted, and that democracy can be preserved and expanded even when material abundance, or mere waste, is slightly reduced. The widespread belief in the intrinsic value of buying and, therefore, advertising, may be increasingly modified by channeling disposable consumer funds more discriminately, and by a long-range approach to such national consumption needs as education, housing, public health and the fine arts.

Real trouble might develop, how-

ever, if the long-run readjustment required by defense needs should overlap with quite a different kind of consumer restrictions—those that result from a short-run business recession or a full-fledged depression. The roots of this latter kind of restriction are, of course, not in physical shortages or budgetary needs, but in shrinking incomes, especially those resulting from loss of employment. This kind of consumer restriction is likely to hit hardest those who have the smallest margin of "abundance," such as unskilled workers.

A late 1957 Survey of Consumer Attitude showed that consumer confidence had dropped steeply during the preceding year. Recession-born restrictions of consumption are likely to be temporary only. But they would be extremely confusing to many consumers if they coincided with the early phases of a reappraisal of consumer values occurring under the stimulus of long-range defense preparations. ■



Answers to Challenge Quiz

(See page 79)

- | | |
|----------------------------------|-----------------------------------|
| (1) False (<i>see page 8</i>) | (7) False (<i>see page 40</i>) |
| (2) True (<i>see page 72</i>) | (8) False (<i>see page 67</i>) |
| (3) True (<i>see page 45</i>) | (9) True (<i>see page 20</i>) |
| (4) False (<i>see page 63</i>) | (10) False (<i>see page 14</i>) |
| (5) False (<i>see page 31</i>) | (11) False (<i>see page 58</i>) |
| (6) True (<i>see page 50</i>) | (12) True (<i>see page 24</i>) |



READING REPORT

A History of the English Speaking Peoples. Volume IV: The Great Democracies. Winston S. Churchill. 403 pp. New York: Dodd, Mead & Co. \$6.00.

•In this fourth and final volume of his distinguished history, Sir Winston's narrative powers have not abated. From the Congress of Vienna to the Boer War, the English speaking world enjoyed its greatest period of democratic achievements and material progress. Its most eminent statesmen—Wellington, Peel, Palmerston, Disraeli and Gladstone—were rich in contradiction, wisdom and stubbornness, and Sir Winston's perceptive, oftentimes irreverent portrayals of them leave a refreshing impression. It is only in his coverage of certain periods of American history that he verges on the superficial. However, even here his masterful descriptions of the significant military campaigns of our Civil War make his book well worth reading.

* * *

The American Stockholder. J. A. Livingston. 290 pp. Philadelphia: J. B. Lippincott Company. \$4.95.

•Livingston is out to expose the Madison Avenue mythmakers and their slogans about the democratization of coupon clipping—"People's Capitalism." Numbering a little over eight million, the average American stockholder is not the

average American, since he earns more money, has a better education and is generally older. Looking upon his investment as a source of extra income, he has little control over his corporate holdings and has neither the time nor the inclination to increase it. As long as the dividend check arrives on schedule, he is quite satisfied to let titans like Young and Wolfson challenge the reigning management. The author does not rail against this situation; he merely gives the realities effective recognition.

* * *

Foundations: Their Power and Influence. Rene Wormser. 412 pp. New York: Devin-Adair. \$7.50.

•It is estimated that the 6,000 foundations giving away money have assets of seven to 9.5 billion dollars. Little other information of value is contained in this wastebasket compendium by the attorney for the Reece Committee, which investigated the foundations so futilely. Wormser is still looking for a Marxist threat to our system among the liquid assets. His thrashing about obscures points that deserve honest critical study. The new growth of the foundations and their tax-free status do raise new problems. These institutions are doing valuable work in the main, but they are also capable of mistakes when they launch

out into the less scientifically precise fields of inquiry.

* * *

Farm Prices. Williard W. Cochrane. 189 pp. Minneapolis: University of Minnesota Press. \$4.00.

•Professor Cochrane, an agricultural economist, wraps up the farm problem in a form as neat and hard as a package of deep-frozen peas. He explains why farm products' supply and demand are inelastic: farmers must try to maximize production even in the case of falling prices, while Americans are eating almost as much as they can. Thus, our present five per cent agricultural surplus could be eliminated only by a brutal drop of 50 to 60 per cent in farm production. This free market action, moreover, would result in continuing wild gyrations in prices and production. Cochrane's solution envisages price supports on the basis of production allocations, with production beyond those levels subject to free market prices. This program, he concedes, would cost the taxpayer money, but he believes it would be worth it.

* * *

Lectures on Economic Principles. Volume I. Sir Dennis H. Robertson. 172 pp. New York: John de Graff, Inc. \$3.50.

•In picking such a stuffy title for a delightfully witty book, the publishers have done a grave injustice to the author, one of England's leading (and most literate) economists. True, this is the first volume of a series of lectures on the principles of economics delivered by Sir Dennis in the years 1945-46 and 1956-57 to a group of lucky undergraduates at Cambridge University, England. And

it packs more economic "meat" into its 172 pages than many a heavier tome. But the lectures are so unpedantic, so intellectually honest and so full of common sense that comparison with standard textbooks is an unnecessary extension of guilt by association. This is not to say that it is an "easy" book—Sir Dennis does not hesitate to use simple geometry when the occasion calls for it. But the difficulties are never of the author's own devising. Sir Dennis does not say all there is to say on his subject, and some economists may find his treatment of such topics as value somewhat old-fashioned. But even they will have to admit that it is the best statement of "old-fashioned" economics they have recently come across. As for the general reader, he will lay down this book convinced that economics is, after all, an exciting subject.

The American Earthquake. Edmund Wilson. 576 pp. New York: Doubleday & Company. \$6.00

•This collection of contemporary articles by a perceptive journalist-critic illuminates eerily the years 1922-34. The great depression seemed to turn everything awry, but Wilson communicates the fact that much had previously been out of joint. His flickering kaleidoscope shows such images as the Ziegfeld Follies, bank runs, Communist demonstrations, the early anomalous Franklin D. Roosevelt and the scrappy thinking and action that struggled to meet the great problems. Wilson's world, traced in American baroque style, is tinny and noisy, rather like an overornamented trash can, but it is tough and gives good service in spite of the dents. ■



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 76.

- | | |
|--|---|
| <p>(1) During the 1949 lull in the economy, President Truman advocated use of strong fiscal and monetary stimulants.
True ☐ False ☐</p> <p>(2) In recent years, consumers have placed greater emphasis on travel expenditures.
True ☐ False ☐</p> <p>(3) Large-scale federal intervention in the agricultural surplus problem began during the Hoover administration.
True ☐ False ☐</p> <p>(4) U. S. exports have been on the decline since the end of the 1956-57 fiscal year.
True ☐ False ☐</p> <p>(5) When demand slackened in post World War II recessions, business readily reduced prices.
True ☐ False ☐</p> <p>(6) Increased spending on new weapons will necessitate substantial cuts in conventional weapons' expenditures.
True ☐ False ☐</p> | <p>(7) The U. S. has been a negligible market for the raw materials of underdeveloped nations.
True ☐ False ☐</p> <p>(8) Increased missile production will necessitate extensive changes in existing plant facilities.
True ☐ False ☐</p> <p>(9) In order to have full employment now, a gross national product of 455 billion dollars would be necessary.
True ☐ False ☐</p> <p>(10) The Rockefeller Report urges the elimination of interservice rivalry in the development of new weapons.
True ☐ False ☐</p> <p>(11) Last year private industry spent seven billion dollars on research and development.
True ☐ False ☐</p> <p>(12) New York has granted its Governor discretionary powers to make substantial tax cuts.
True ☐ False ☐</p> |
|--|---|

DEPT. of BETTER M^OUSETRAPS

From the World of Industry: An electronic converter that turns any radio into a clock radio . . . Photo-copy paper that produces two black-on-white copies from every negative without a special developer or any change in exposure dial settings . . . Aluminum-coated barbed wire that is virtually free of progressive erosion . . . A caliper that measures round, flat and irregular objects . . . A screening unit that is designed to simplify the unrolling, measuring and cutting of insect wire screening.

* * *

Personal Business: A zipper repair kit that contains all the parts to make a new zipper or repair an old one . . . Plastic mittens that let you dabble in the dirtiest of stuff while giving you freedom of movement and keeping your hands clean . . . A cellophane book that provides airtight storage for shirts, blouses and sweaters . . . A time reminder that clips on to wearing apparel and sounds the alarm to any activity gently, but effectively.

* * *

On the Green: For the preservation of the tummy, a golf ball retriever that eliminates stooping or bending during practice . . . A light aluminum golf cane that holds 14 clubs and six balls and can be carried on the arm . . . A plastic spiral agitator that washes golf balls by the rotation of the ball against a brush.

On the Waterfront: A hoop-shaped detector that finds outboard motors, anchors and other metal objects lost overboard; it has a range of seven feet and can operate in salt or fresh water at depths up to 300 feet . . . A fish caller that buzzes under water, luring the prey into the trap . . . A "hookout" that easily removes bait hooks . . . A casting rod grip that holds the thumb in a natural position on the brake of the reel.

* * *

In the Garden: April will not be the cruelest month of the year with a rotary mower that permits the blade path to be changed without lifting the machine . . . A plastic-film mulch that retains soil moisture and curtails the growth of weeds . . . A plastic film that will replace glass in the construction of greenhouses at a much lower cost . . . A wheelbarrow-designed lawn spreader that issues fertilizer and seeds under bushes, near walls and on slopes.

* * *

Around the House: A fish feeder that automatically shakes the correct amount of food into the aquarium . . . A portable barbecue lighter that ignites charcoal in 80 seconds . . . An air-operated vacuum cleaner that handles volatile liquids and solids . . . A nondrip tap that resists the pressure of water as well as all acids and alkalis . . . An escutcheon-shaped doorknob that will be a boon for lovers of things baroque . . . A wall anchor that can be used to hold fixtures in the narrowest of spaces . . . An aluminum mailbox that loads mail from the top and easily releases it from the bottom.

* * *

Write to CHALLENGE Magazine for additional information. ■